

United Community Bancorp
Form 10-Q
February 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-51800

United Community Bancorp
(Exact name of registrant as specified in its charter)

United States of America
(State or other jurisdiction of incorporation or organization)

36-4587081
(I.R.S. Employer Identification No.)

92 Walnut Street, Lawrenceburg, Indiana
(Address of principal executive offices)

47025
(Zip Code)

(812) 537-4822
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Edgar Filing: United Community Bancorp - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of February 11, 2011, there were 7,845,554 shares of the registrant's common stock outstanding, of which 4,655,200 shares were held by United Community MHC.

UNITED COMMUNITY BANCORP

Table of Contents

	Page No.
Part I. Financial Information	
Item 1.	Financial Statements (Unaudited)
	Consolidated Statements of Financial Condition at December 31, 2010 and June 30, 2010
	1
	Consolidated Statements of Income for the Three and Six Month Periods Ended December 31, 2010 and 2009
	2
	Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Month Periods Ended December 31, 2010 and 2009
	3
	Consolidated Statements of Cash Flows for the Six Month Periods Ended December 31, 2010 and 2009
	4
	Notes to Unaudited Consolidated Financial Statements
	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
	24
Item 4.	Controls and Procedures
	25
Part II. Other Information	
Item 1.	Legal Proceedings
	26
Item 1A.	Risk Factors
	26
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
	26
Item 3.	Defaults Upon Senior Securities
	26
Item 4.	Submission of Matters to a Vote of Security Holders
	26
Item 5.	Other Information
	26
Item 6.	Exhibits
	26
Signatures	27

Part I. Financial Information
Item 1. Financial Statements

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except share amounts)	December 31, 2010		June 30, 2010	
Assets				
Cash and due from banks	\$	19,343	\$	32,023
Investment securities:				
Securities available for sale - at estimated market value		66,034		62,089
Securities held to maturity - at amortized cost		611		631
Mortgage-backed securities available for sale - at estimated market value		74,660		57,238
Loans receivable, net		298,240		309,575
Loans available for sale		1,847		364
Property and equipment, net		7,584		7,513
Federal Home Loan Bank stock, at cost		2,008		2,016
Accrued interest receivable:				
Loans		1,327		1,573
Investments and mortgage-backed securities		810		717
Other real estate owned, net		152		297
Cash surrender value of life insurance policies		7,247		7,109
Deferred income taxes		4,215		3,721
Goodwill		2,522		2,522
Intangible asset		1,183		1,400
Prepaid expenses and other assets		2,990		3,316
Total assets	\$	490,773	\$	492,104
Liabilities and Stockholders' Equity				
Deposits	\$	429,808	\$	430,180
Advance from FHLB		2,333		2,833
Accrued interest on deposits		79		119
Accrued interest on FHLB advance		6		7
Advances from borrowers for payment of insurance and taxes		235		168
Accrued expenses and other liabilities		3,092		3,317
Total liabilities		435,553		436,624
Stockholders' equity				
Preferred stock, \$0.01 par value; 1,000,000 shares authorized, none issued		-		-
Common stock, \$0.01 par value; 19,000,000 shares authorized, 8,464,000 shares issued and 7,845,554 shares outstanding at December 31, 2010 and June 30, 2010.		36		36
Additional paid-in capital		36,913		36,995
Retained earnings		28,195		28,048
Less shares purchased for stock plans		(2,895)		(3,042)

Edgar Filing: United Community Bancorp - Form 10-Q

Treasury Stock, at cost - 618,446 shares at December 31, 2010 and June 30, 2010, respectively	(7,054)	(7,054)
Accumulated other comprehensive income:		
Unrealized gain on securities available for sale, net of income taxes	25	497
Total stockholders' equity	55,220	55,480
Total liabilities and stockholders' equity	\$ 490,773	\$ 492,104

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Income
(In thousands, except share amounts)

	For the three months ended		For the six months ended	
	December 31,		December 31	
	2010	2009	2010	2009
Interest income:				
Loans	\$ 4,354	\$ 3,997	\$ 8,681	\$ 8,158
Investments and mortgage - backed securities	679	714	1,382	1,374
Total interest income	5,033	4,711	10,063	9,532
Interest expense:				
Deposits	1,413	1,560	3,026	3,235
Borrowed funds	20	28	42	58
Total interest expense	1,433	1,588	3,068	3,293
Net interest income	3,600	3,123	6,995	6,239
Provision for loan losses	737	324	1,456	946
Net interest income after provision for loan losses	2,863	2,799	5,539	5,293
Other income:				
Service charges	606	514	1,207	996
Gain on sale of loans	215	110	442	196
Gain on sale of investments	-	51	44	39
Gain (loss) on sale of other real estate owned	(27)	-	(25)	20
Income from Bank Owned Life Insurance	70	82	139	139
Other	109	185	161	238
Total other income	973	942	1,968	1,628
Other expense:				
Compensation and employee benefits	1,687	1,441	3,358	2,912
Premises and occupancy expense	336	278	645	554
Deposit insurance premium	180	193	408	413
Advertising expense	117	85	218	176
Data processing expense	96	64	180	120
ATM service fees	125	110	263	217
Provision for loss on sale of real estate owned	-	200	-	300
Acquisition expense	-	-	38	-
Other operating expenses	663	698	1,345	1,252
Total other expense	3,204	3,069	6,455	5,944
Income before income tax provision	632	672	1,052	977
Income tax provision	53	196	202	279

Edgar Filing: United Community Bancorp - Form 10-Q

Net income	\$	579	\$	476	\$	850	\$	698
Basic and diluted earnings per share	\$	0.08	\$	0.06	\$	0.11	\$	0.09

See accompanying notes to the consolidated financial statements.

2

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	For the three months ended December 31,		For the six months December 31,	
	2010	2009	2010	2009
Net income	\$ 579	\$ 476	\$ 850	\$ 698
Other comprehensive loss, net of tax				
Unrealized loss on available for sale securities	(716)	(528)	(445)	(61)
Reclassification adjustment for gains on available for sale securities included in income	-	(31)	(27)	(23)
Total comprehensive income (loss)	\$ (137)	\$ (83)	\$ 378	\$ 614

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(In thousands)

(In thousands)	(Unaudited)	
	Six months ended December 31,	
	2010	2009
Operating activities:		
Net income	\$ 850	\$ 698
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	266	231
Provision for loan losses	1,456	946
Provision for loss on sale of real estate acquired through foreclosure	-	300
Deferred loan origination costs	(40)	(5)
Amortization of premium on investments	509	(24)
Proceeds from sale of loans	13,835	17,376
Loans disbursed for sale in the secondary market	(14,876)	(15,427)
Gain on sale of loans	(442)	(196)
Amortization of intangible asset	217	-
Amortization of acquisition-related loan yield discount	(124)	-
Amortization of acquisition-related credit risk discount	(102)	-
Amortization of acquisition-related CD yield adjustment	(72)	-
(Gain) loss on the sale of available for sale securities	(44)	(39)
ESOP shares committed to be released	(44)	72
Stock-based compensation expense	109	189
Deferred income taxes	(252)	36
(Gain) loss on sale of other real estate owned	25	(20)
Effects of change in operating assets and liabilities:		
Accrued interest receivable	153	24
Prepaid expenses and other assets	326	(1,669)
Accrued interest on deposits	(40)	(3)
Accrued expenses and other	(226)	(250)
Net cash provided by operating activities	1,484	2,239
Investing activities:		
Proceeds from maturity of available for sale investment securities	5,302	4,890
Proceeds from the sale of available for sale investment securities	4,044	3,498
Proceeds from maturity of held to maturity investment securities	20	-
Proceeds from the sale of mortgage-backed securities	-	5,350
Proceeds from repayment of mortgage-backed securities available for sale	8,729	4,554
Proceeds from sale of other real estate owned	180	1,759
Proceeds from sale of Federal Home Loan Bank stock	8	-
Purchases of available for sale investment securities	(15,143)	(8,713)

Edgar Filing: United Community Bancorp - Form 10-Q

Purchases of mortgage-backed securities	(25,479)	(17,670)
Increase in cash surrender value of life insurance	(139)	(140)
Net increase (decrease) in loans	10,085	(71)
Capital expenditures	(337)	(258)
Net cash used in investing activities	(12,730)	(6,801)
Financing activities:		
Net decrease in deposits	(300)	(2,699)
Repayments of Federal Home Loan Bank advances	(500)	(500)
Dividends paid to stockholders	(701)	(545)
Repurchases of common stock	-	(73)
Net increase (decrease) in advances from borrowers for payment of insurance and taxes	67	(9)
Net cash used in financing activities	(1,434)	(3,826)
Net decrease in cash and cash equivalents	(12,680)	(8,388)
Cash and cash equivalents at beginning of period	32,023	27,004
Cash and cash equivalents at end of period	\$ 19,343	\$ 18,616

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION- United Community Bancorp (the “Company”), a Federally-chartered corporation, is the mid-tier holding company for United Community Bank (the “Bank”), which is a Federally-chartered, FDIC-insured savings bank. The Company was organized in conjunction with the Bank’s reorganization from a mutual savings bank to the mutual holding company structure on March 30, 2006. United Community MHC, a Federally-chartered corporation, is the mutual holding company parent of the Company. United Community MHC owns approximately 59% of the Company’s outstanding common stock and because the Company is in the mutual holding company structure, must always own at least a majority of the voting stock of the Company. The Company, through the Bank, operates in a single business segment providing traditional banking services through its office and branches in southeastern Indiana. UCB Real Estate Management Holding, LLC is a wholly-owned subsidiary of the Bank. The entity was formed for the purpose of holding assets that are acquired by the Bank through, or in lieu of, foreclosure.

The accompanying unaudited consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission, and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. No other adjustments have been included. The results for the three and six month periods ended December 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2011. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2010, which are included on the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2010. The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements.

2. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) – As of December 31, 2010 and June 30, 2010, the ESOP owned 202,061 and 230,897 shares, respectively, of the Company’s common stock, which were held in a suspense account until released for allocation to participants.

3. EARNINGS PER SHARE (EPS) – In June 2008, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 260-10-65-2, Transition Related to FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. This guidance concludes that non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to ASC 260, Earnings per Share, when computing basic and diluted EPS. This guidance became effective for the Company on July 1, 2009. The Company’s restricted share awards contain non-forfeitable dividend rights but do not contractually obligate the holders to share in the losses of the Company. Accordingly, during periods of net income, unvested restricted shares are included in the determination of both basic and diluted EPS. During periods of net loss, these shares are excluded from both basic and diluted EPS.

Basic EPS is based on the weighted average number of common shares and unvested restricted shares outstanding, adjusted for ESOP shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. For the three and six month periods ended December 31, 2010 and 2009, 346,304 outstanding stock option awards were excluded from the computation of diluted weighted average outstanding shares as their effect would have been anti-dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
Basic weighted average outstanding shares	7,631,858	7,608,208	7,631,858	7,610,139
Effect of dilutive stock options	-	-	-	-
Diluted weighted average outstanding shares	7,631,858	7,608,208	7,631,858	7,610,139

4. STOCK-BASED COMPENSATION – The Company applies the provisions of ASC 718-10-35-2, Compensation-Stock Compensation, to stock-based compensation, which requires the Company to measure the cost of employee services received in exchange for awards of equity instruments and to recognize this cost in the financial statements over the period during which the employee is required to provide such services. The Company has elected to recognize compensation cost associated with its outstanding stock-based compensation awards with graded vesting on an accelerated basis pursuant to ASC 718-10-35-8. The expense is calculated for stock options at the date of grant using the Black-Scholes option pricing model. The expense associated with restricted stock awards is calculated based upon the value of the common stock on the date of grant.

5. DIVIDENDS – On July 22, 2010 and October 28, 2010, the Board of Directors of the Company declared cash dividends on the Company’s outstanding shares of stock of \$0.11 per share. United Community MHC, which owns 4,655,200 shares of the Company’s common stock, waived receipt of the dividends. The dividends were paid on August 31, 2010 and November 30, 2010, respectively. Accordingly, cash dividends, net of unvested shares held in ESOP, of \$701,000 were paid to shareholders during the six month period ended December 31, 2010.

6. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended December 31,	
	2010	2009
	(In thousands)	
Supplemental disclosure of cash flow information is as follows:		
Cash paid during the period for:		
Income taxes, net of refunds received	\$ 682	\$ -
Interest	\$ 3,109	\$ 3,296
Supplemental disclosure of non-cash investing and financing activities is as follows:		
Unrealized gains (losses) on securities designated as available for sale, net of tax	\$ (472)	\$ (84)
Transfers of loans to other real estate owned	\$ 60	\$ 888

7. TROUBLED DEBT RESTRUCTURINGS - From time to time, as part of our loss mitigation process, loans may be renegotiated in a troubled debt restructuring (TDR) when we determine that greater economic value will ultimately be recovered under the new terms than through foreclosure, liquidation, or bankruptcy. We may consider the borrower’s payment status and history, the borrower’s ability to pay upon a rate reset on an adjustable rate mortgage, size of the payment increase upon a rate reset, period of time remaining prior to the rate reset, and other relevant factors in determining whether a borrower is experiencing financial difficulty. However, TDRs are also considered to be impaired, except for those that have been performing under the new terms for at least six consecutive months. TDRs are accounted for as set forth in ASC 310 Receivables (“ASC 310”). A TDR may be on non-accrual or it may accrue interest. A TDR is typically on non-accrual until the borrower successfully performs under the new

terms for six consecutive months. However, a TDR may be placed on accrual immediately following the TDR in those instances where a borrower's payments are current prior to the modification and management determines that principal and interest under the new terms are fully collectible.

Existing performing loan customers who request loan a (non-TDR) modification and who meet the Bank's underwriting standards may, usually for a fee, modify their original loan terms to terms currently offered. The modified terms of these loans are similar to the terms offered to new customers. The fee assessed for modifying the loan is deferred and amortized over the life of the modified loan using the level-yield method and is reflected as an adjustment to interest income. Each modification is examined on a loan-by-loan basis and if the modification of terms represents more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs associated with the mortgage loan are recognized in interest income at the time of the modification. If the modification of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs continue to be deferred.

At December 31, 2010, the Bank had nineteen loans totaling \$20.1 million that qualified as TDRs, and has reserved for losses on these loans for \$2.0 million. At December 31, 2010, the Bank had no other commitments to lend on its TDRs. At June 30, 2010, the Bank had thirteen loans totaling \$9.0 million that qualified as TDRs, and has reserved for losses on these loans for \$1.8 million. Management continues to monitor the performance of loans classified as TDRs, and does not anticipate any additional losses on TDRs at December 31, 2010.

8. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

In accordance with ASC 825-10-50-10, for financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

The following methods and assumptions are used in estimating the fair values of financial instruments:

Cash and due from banks, accrued interest receivable, and accrued interest payable

The carrying values presented in the consolidated statements of position approximate fair value.

Investments and mortgage-backed securities

For investment securities (debt instruments) and mortgage-backed securities, fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

Loans receivable

The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest, terms, and by performing and non-performing categories. The fair value of performing loans, except residential mortgage loans, is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources. The fair value for significant non-performing loans is based on recent internal or external appraisals. Assumptions regarding credit risk, cash flow, and discount rates are judgmentally determined by using available market information.

Federal Home Loan Bank stock

The Bank is a member of the Federal Home Loan Bank system and is required to maintain an investment based upon a pre-determined formula. The carrying values presented in the consolidated statements of position approximate fair

value.

Deposits

The fair values of passbook accounts, NOW accounts, and money market savings and demand deposits approximate their carrying values. The fair values of fixed maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar maturities.

7

Advance from Federal Home Loan Bank

The fair value is calculated using rates available to the Company on advances with similar terms and remaining maturities.

Off-balance sheet items

Carrying value is a reasonable estimate of fair value. These instruments are generally variable rate or short-term in nature, with minimal fees charged. Off-balance sheet items at December 31, 2010 are comprised solely of loan commitments.

Fair value of financial instruments

The estimated fair values of the Company's financial instruments at December 31, 2010 and June 30, 2010 are as follows:

	December 31, 2010		June 30, 2010	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and due from banks	\$ 19,343	\$ 19,343	\$ 32,023	\$ 32,023
Investment securities available for sale	66,034	66,034	62,089	62,089
Investment securities held to maturity	611	611	631	631
Mortgage-backed securities	74,660	74,660	57,238	57,238
Loans receivable and loans receivable held for sale	300,087	294,234	309,939	304,943
Accrued interest receivable	2,137	2,137	2,290	2,290
Investment in FHLB stock	2,008	2,008	2,016	2,016
Financial liabilities:				
Deposits	\$ 429,808	\$ 431,508	\$ 430,180	432,091
Accrued interest payable	85	85	126	126
FHLB advance	2,333	2,387	2,833	2,904
Off balance-sheet items	\$ -	\$ -	\$ -	\$ -

The Company measures fair value under ASC 820-10-50-2, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820-10-50-2 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820-10-50-2 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities.

Edgar Filing: United Community Bancorp - Form 10-Q

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value methods and assumptions are set forth below for each type of financial instrument. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 2 securities include U.S. Government and agency mortgage-backed securities, U.S. Government agency bonds, municipal securities, and other real estate owned. If quoted market prices are not available, the Bank utilizes a third party vendor to calculate the fair value of its available for sale securities. The third party vendor uses quoted prices of securities with similar characteristics when available. If such quotes are not available, the third party vendor uses pricing models or discounted cash flow models with observable inputs to determine the fair value of these securities. For other real estate owned, the Bank utilizes appraisals obtained from independent third parties to determine fair value.

Edgar Filing: United Community Bancorp - Form 10-Q

Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
(In thousands)				
December 31, 2010:				
Mortgage-backed securities	\$ 74,660	\$ -	\$ 74,660	\$ -
U.S. Government corporations and agencies	50,608	-	50,608	-
Municipal bonds	15,302	-	15,302	-
Other equity securities	124	124	-	-
June 30, 2010:				
Mortgage-backed securities	\$ 57,238	\$ -	\$ 57,238	\$ -
U.S. Government corporations and agencies	49,369	-	49,369	-
Municipal bonds	12,591	-	12,591	-
Other equity securities	129	129	-	-

Fair value measurements for certain assets and liabilities measured at fair value on a nonrecurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
(In thousands)				
December 31, 2010:				
Other real estate owned	\$ 152	\$ -	\$ 152	\$ -
Loans available for sale	1,847	-	1,847	-
Impaired loans	24,455	-	24,455	-
June 30, 2010:				
Other real estate owned	\$ 297	-	\$ 297	-
Loans available for sale	364	-	364	-
Impaired loans	13,854	-	13,854	-

The adjustments to other real estate owned and impaired loans are based primarily on appraisals of the real estate or other observable market prices. Our policy is that fair values for these assets are based on current appraisals. We generally maintain current appraisals for these items.

Edgar Filing: United Community Bancorp - Form 10-Q

Investment securities available for sale at December 31, 2010 consist of the following:

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	\$ 74,257	\$ 631	\$ 228	\$ 74,660
U.S. Government corporations and agencies	50,454	172	18	50,608
Municipal bonds	15,736	16	450	15,302
Other equity securities	211	-	87	124
	\$ 140,658	\$ 819	\$ 783	\$ 140,694

Investment securities held to maturity at December 31, 2010 consist of the following:

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	Estimated Market Value
Municipal bonds	\$ 611	-	-	\$ 611

Investment securities available for sale at June 30, 2010 consist of the following:

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	\$ 56,669	\$ 636	\$ 67	\$ 57,238
U.S. Government corporations and agencies	49,157	212	-	49,369
Municipal bonds	12,538	137	84	12,591
Other equity securities	211	-	82	129
	\$ 118,575	\$ 985	\$ 233	\$ 119,327

Investment securities held to maturity at June 30, 2010 consist of the following:

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	Estimated Market Value
Municipal bonds	\$ 631	-	-	\$ 631

Edgar Filing: United Community Bancorp - Form 10-Q

The mortgage-backed securities, U.S. Government agency bonds and municipal bonds available for sale have the following maturities at December 31, 2010:

	Amortized cost	Estimated market value
(In thousands)		
Due or callable in one year or less	\$ 38,150	\$ 38,282
Due or callable in 1 - 5 years	86,560	86,986
Due or callable in 5 - 10 years	1,039	1,025
Due or callable in greater than 10 years	14,698	14,277
Total debt securities	\$ 140,447	\$ 140,570

All other securities available for sale at December 31, 2010 are saleable within one year. The Bank held \$611,000 and \$631,000 in investment securities that are being held to maturity at December 31, 2010 and June 30, 2010, respectively. The investment securities held to maturity have annual returns of principal and will be fully matured between 2014 and 2019.

The expected returns of principal of investments held to maturity are as follows as of December 31, 2010 (in thousands):

January 1, 2011 through June 30, 2011	\$ 45
2012	68
2013	71
2014	74
2015	77
2016 and thereafter	276
	\$ 611

Gross proceeds on the sale of investment and mortgage-backed securities were \$0 and \$8.3 million for the three month periods ended December 31, 2010 and 2009, respectively. Gross realized gains for the three month periods ended December 31, 2010 and 2009 were \$0 and \$129,000, respectively. Gross realized losses for the three month periods ended December 31, 2010 and 2009 were \$0 and \$77,000, respectively.

Gross proceeds on the sale of investment and mortgage-backed securities were \$4.0 million and \$8.8 million for the six month periods ended December 31, 2010 and 2009, respectively. Gross realized gains for the six month periods ended December 31, 2010 and 2009 were \$44,000 and \$129,000, respectively. Gross realized losses for the six month periods ended December 31, 2010 and 2009 were \$0 and \$90,000, respectively.

The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at December 31, 2010:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Mortgage-backed securities	\$ 35,687	\$ 228	\$ -	\$ -	\$ 35,687	\$ 228
U.S. Government corporations and agencies	3,680	18	-	-	3,680	18

Edgar Filing: United Community Bancorp - Form 10-Q

Municipal bonds	12,833	450	-	-	12,833	450
Other equity securities	-	-	124	87	124	87
	\$ 52,200	\$ 696	\$ 124	\$ 87	\$ 52,324	\$ 783
Number of investments	44		1		45	

Securities available for sale are reviewed for possible other-than-temporary impairment on a quarterly basis. During this review, Management considers the severity and duration of the unrealized losses as well as its intent and ability to hold the securities until recovery, taking into account balance sheet management strategies and its market view and outlook. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer or any credit enhancement providers, and the quality of the underlying collateral. Management does not intend to sell these securities in the foreseeable future, and does not believe that it is more likely than not that the Bank will be required to sell a security in an unrealized loss position prior to a recovery in its value. The decline in market value is due to changes in market interest rates. The fair values are expected to recover as the securities approach maturity dates.

9. GOODWILL AND INTANGIBLE ASSET

In June 2010, the Company acquired three branches from Integra Bank National Association (“Integra”), which was accounted for under the purchase method of accounting. Under the purchase method, the Company is required to allocate the cost of an acquired company to the assets acquired, including identified intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. The excess cost over the value of net assets acquired represents goodwill, which is not subject to amortization.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill recorded by the Company in connection with its acquisition relates to the inherent value in the business acquired and this value is dependent upon the Company’s ability to provide quality, cost-effective services in a competitive market place. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods.

Goodwill is not amortized but is tested for impairment when indicators of impairment exist, or at least annually. Potential goodwill impairment exists when the fair value of the reporting unit (as defined by US GAAP) is less than its carrying value. An impairment loss is recognized in earnings only when the carrying amount of goodwill is less than its implied fair value.

As a result of the acquisition, the Company originally recorded a core deposit intangible asset of \$1,400,000 and goodwill of \$3,130,000. A purchase accounting adjustment was recorded during the three month period ended September 30, 2010 related to deferred tax balances that would have affected the measurement of the amounts recognized at the date of acquisition. This adjustment had the effect of reducing goodwill and increasing deferred taxes by \$608,000. As required pursuant to the guidance in FASB ASC 805, Business Combinations, this adjustment has been reflected in the Company’s consolidated statements of financial condition on a retrospective basis.

The following table indicates changes to the core deposit intangible asset and goodwill balances for the six month period ended December 31, 2010:

	Core Deposit Intangible	Goodwill
	(dollars in thousands)	
Balance at June 30, 2010	\$ 1,400	\$ 2,522
Amortization	(217)	-
Balance at December 31, 2010	\$ 1,183	\$ 2,522

The core deposit intangible is being amortized using the double declining balance method over its estimated useful life of 8.75 years. Remaining amortization of the core deposit intangible is as follows (dollars in thousands) as of December 31, 2010:

January 1, 2011 through June 30, 2011	\$ 94
2012	226
2013	179
2014	142
2015	118

2016 and thereafter	424
	\$ 1,183

12

10. DISCLOSURES ABOUT THE CREDIT QUALITY OF LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (IN THOUSANDS)

The following table illustrates certain disclosures required by ASC 310-10-50-11B(c), (g) and (h).

Allowance for Credit Losses and Recorded Investment in Loans Receivable
For the six months ended December 31, 2010

	Mortgage	Consumer	One- four-family nonowner occupied	Multi- family nonowner occupied	Non- residential real estate	Construction	Land	Commercial	Total
Allowance for Credit Losses:									
Beginning Balance:	\$ 439	\$ 908	\$ (20)	\$ 2,863	\$ 1,256	\$ 4	\$ 10	\$ 221	\$ 5,681
Charge offs	(188)	(105)	-	-	(206)	-	-	(38)	(537)
Recoveries	17	11	-	-	1	-	-	-	29
Provision	547	184	73	259	345	9	22	17	1,456
Reclassified from credit risk allowance on acquired loans	55	-	-	-	-	-	-	-	55
Ending Balance:	\$ 870	\$ 998	\$ 53	\$ 3,122	\$ 1,396	\$ 13	\$ 32	\$ 200	\$ 6,684
Balance, Individually Evaluated									
Balance, Individually Evaluated	\$ 217	\$ 706	\$ -	\$ 2,658	\$ -	\$ -	\$ -	\$ -	\$ 3,581
Balance, Collectively Evaluated									
Balance, Collectively Evaluated	\$ 653	\$ 199	\$ 53	\$ 464	\$ 1,396	\$ 13	\$ 32	\$ 200	\$ 3,010
Balance, Loans acquired with deteriorated credit quality									
Balance, Loans acquired with deteriorated credit quality	\$ -	\$ 93	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93
Financing receivables:									
Ending Balance	\$ 116,038	\$ 43,651	\$ 14,264	\$ 48,215	\$ 71,806	\$ 1,549	\$ 3,901	\$ 6,729	\$ 306,153
Ending Balance: individually evaluated for impairment									
Ending Balance: individually evaluated for impairment	\$ 1,348	\$ 776	\$ 980	\$ 13,614	\$ 9,033	\$ -	\$ -	\$ -	\$ 25,751
Ending Balance: collectively evaluated for impairment									
Ending Balance: collectively evaluated for impairment	\$ 100,096	\$ 33,502	\$ 12,371	\$ 34,018	\$ 54,190	\$ 1,549	\$ 3,901	\$ 3,303	\$ 242,930
Ending Balance: loans acquired with deteriorated credit									
Ending Balance: loans acquired with deteriorated credit	\$ 14,594	\$ 9,373	\$ 913	\$ 583	\$ 8,583	\$ -	\$ -	\$ 3,426	\$ 37,472

quality

13

The following table illustrates certain disclosures required by ASC 310-10-50-29(b).

Credit Risk Profile by Internally Assigned Grade

Grade:	Mortgage	Consumer	One- to four-family nonowner occupied	Multi-family nonowner occupied	Non-residential real estate	Construction	Land	Commercial	Total
Pass	\$ 111,533	\$ 42,121	\$ 11,976	\$ 33,917	\$ 56,109	\$ 1,549	\$ 1,173	\$ 6,454	\$ 264,832
Special mention	853	89	979	2,973	7,291	-	-	241	12,426
Substandard	3,435	819	1,100	9,975	8,129	-	2,698	34	26,190
Doubtful	-	-	-	-	-	-	-	-	-
Loss	217	622	209	1,350	277	-	30	-	2,705
Total:	\$ 116,038	\$ 43,651	\$ 14,264	\$ 48,215	\$ 71,806	\$ 1,549	\$ 3,901	\$ 6,729	\$ 306,153

The following table illustrates certain disclosures required by ASC 310-10-50-7A for gross loans.

Age Analysis of Past Due Loans Receivable

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
Mortgage	\$ 2,370	\$ 1,276	\$ 1,628	\$ 5,274	\$ 110,764	\$ 116,038
Consumer	260	43	724	1,027	42,624	43,651
One- to four-family nonowner occupied	328	-	302	630	13,634	14,264
Multi-family nonowner occupied	1,983	681	12,233	14,897	33,318	48,215
Non-residential real estate	2,808	546	5,207	8,561	63,245	71,806
Construction	-	-	-	-	1,549	1,549
Land	-	-	-	-	3,901	3,901
Commercial	22	-	-	22	6,707	6,729
Total	\$ 7,771	\$ 2,546	\$ 20,094	\$ 30,411	\$ 275,742	\$ 306,153

The following table illustrates certain disclosures required by ASC 310-10-50-15.

Impaired Loans
For the six months ended December 31, 2010

	Recorded investment	Unpaid principal balance	Specific allowance	Interest income recognized
With an allowance recorded:				
Mortgage	\$ 1,132	\$ 1,349	\$ (217)	\$ 10
Consumer	230	936	(706)	-

Edgar Filing: United Community Bancorp - Form 10-Q

One- to four-family nonowner occupied	771	980	(209)	9
Multi-family nonowner occupied	10,777	12,157	(1,380)	135
Non-residential real estate	7,964	9,033	(1,069)	173
Construction	-	-	-	-
Land	-	-	-	-
Commercial	-	-	-	-
Total	\$ 20,874	\$ 24,455	\$ (3,581)	\$ 327

The Bank did not have any impaired loans with no specific allowance or any investment in subprime loans at December 31, 2010.

11. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In January 2011, the FASB issued ASU 2011-1, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20", which delays the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 in order to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. Management is currently evaluating the impact, if any, that the adoption of the remaining amendments will have on its consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2010, the FASB issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In July 2010, the FASB issued Accounting Standards Update (ASU) 2010-20, "Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The purpose of this Update is to improve transparency by companies that hold financing receivables, including loans, leases and other long-term receivables. The Update requires such companies to disclose more information about the credit quality of their financing receivables and the credit reserves against them. This guidance became effective during the three month period ended December 31, 2010, with the exception of certain disclosures which include information for activity that occurs during a reporting period (activity in the allowance for credit losses and modifications of financing receivables) which will be effective for the first interim or annual period beginning after December 15, 2010.

In April 2010, the FASB issued ASU No. 2010-18, Receivables (Topic 310): Effect of Loan Modification when the Loan is Part of a Pool that is Accounted for as a Single Asset (a consensus of the FASB Emerging Issues Task Force). The amendments in this update affect any entity that acquires loans subject to ASC Subtopic 310-30, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. ASU No. 2010-18 became effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the interim period ending September 30, 2010, and the amendments are to be applied prospectively. The adoption of this guidance did not have a material impact on the Company's financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosure about Fair Value Measurements, under Topic 820, Fair value Measurements and Disclosures, to improve and provide new disclosures for recurring and nonrecurring fair value measurements under the three-level hierarchy of inputs for transfers in and out of Levels 1 and 2, and activity in Level 3. This update also clarifies existing disclosures of the level of disaggregation for the classes of assets and liabilities and the disclosure about inputs and valuation techniques. ASU No. 2010-06 became effective during the year ended June 30, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which becomes effective for the interim period ending September 30, 2011. The adoption of this guidance did not have a material impact on the Company's financial statements.

Item 2. Management Discussion and Analysis

Forward-Looking Statements

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, general economic conditions, changes in the interest rate environment, legislative or regulatory changes that may adversely affect our business, changes in accounting policies and practices, changes in competition and demand for financial services, adverse changes in the securities markets, changes in deposit flows, changes in the quality or composition of the Company’s loan or investment portfolios, and the Company’s ability to successfully integrate assets, liabilities, customers, systems, and personnel of the three branches of Integra Bank it is acquiring into its operations and the Company’s ability to recognize revenue synergies and cost savings within expected time frames. Additionally, other risks and uncertainties may be described in the reports the Company files with the SEC, including the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2010, which are available through the SEC’s website at www.sec.gov. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake the responsibility, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies: allowance for loan losses and deferred income taxes.

ALLOWANCE FOR LOAN LOSSES - The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of Thrift Supervision (OTS), as an integral part of its examination process, periodically reviews our allowance for loan losses. This agency may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see Note 10 included in this Form 10-Q and Notes 1 and 5 of the notes to the consolidated financial statements included in Item 8 of the Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2010.

DEFERRED INCOME TAXES - We use the asset and liability method of accounting for income taxes as prescribed in Accounting Standards Codification (ASC) 740-10-50. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings. The Company applies the provisions of ASC 275-10-50-8 to account for uncertainty in income taxes. The Company had no unrecognized tax benefits as of December 31, 2010 and June 30, 2010. The Company recognized no interest and penalties on the underpayment of income taxes during the three or six month periods ended December 31, 2010 and 2009, and had no accrued interest and penalties on the balance sheet as of December 31, 2010 and June 30, 2010. The Company has no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase with the next twelve months. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years before 2007.

INVESTMENT SECURITIES - Investments are reviewed quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, Management evaluates, among other factors, the expected cash flows of the security, the duration and extent to which the fair value of an investment is less than its cost, the historical and implicit volatility of the security and intent and ability to hold the investment until recovery, which may be maturity. Investments with an indicator of impairment are further evaluated to determine the likelihood of a significant adverse effect on the fair value and amount of the impairment as necessary. Once the other-than-temporary impairment is recorded, when future cash flows can be reasonably estimated, future cash flows are re-allocated between interest and principal cash flows to provide for a level-yield on the security.

Comparison of Financial Condition at December 31, 2010 and June 30, 2010

Total assets were \$490.8 million at December 31, 2010, compared to \$492.1 million at June 30, 2010. The decrease is primarily due to a \$12.7 million decrease in cash, an \$11.3 million decrease in loans receivable, partially offset by a \$21.3 million increase in investment securities. The decrease in loans receivable is primarily the result of more loans being sold to Freddie Mac in the current period. The increase in investments in the current period was funded by proceeds from the sales of loans and cash.

Total liabilities were \$435.6 million at December 31, 2010, compared to \$436.6 million at June 30, 2010.

Total stockholders' equity was \$55.2 million at December 31, 2010, compared to \$55.5 million at June 30, 2010. The decrease is primarily the result of a \$472,000 unrealized loss on available for sale securities and dividends paid of \$701,000, partially offset by net income during the six month period ended December 31, 2010 of \$850,000.

Comparison of Operating Results for the Three and Six Months Ended December 31, 2010 and 2009

General. Net income was \$579,000 for the three months ended December 31, 2010, compared to net income of \$476,000 for the three months ended December 31, 2009. Net income was \$850,000 for the six months ended December 31, 2010, compared to net income of \$698,000 for the six months ended December 31, 2009.

The following table summarizes changes in interest income and interest expense for the three and six months ended December 31, 2010 and 2009.

	Three Months Ended December 31,			Six Months Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
	(Dollars in thousands)					
Interest income:						
Loans	\$ 4,354	\$ 3,997	8.9%	\$ 8,681	\$ 8,158	6.4%
Investment and mortgage backed securities	672	711	(5.5)	1,370	1,368	0.1
Other interest-earning assets	7	3	133.3	12	6	100.0
Total interest income	5,033	4,711	6.8	10,063	9,532	5.6
Interest expense:						
NOW and money market deposit accounts	199	197	1.0	483	454	6.4
Passbook accounts	71	33	115.2	135	65	107.7
Certificates of deposit	1,143	1,330	(14.1)	2,408	2,716	(11.3)
Total interest-bearing deposits	1,413	1,560	(9.4)	3,026	3,235	(6.5)
FHLB advances	20	28	(28.6)	42	58	(27.6)
Total interest expense	1,433	1,588	(9.8)	3,068	3,293	(6.8)
Net interest income	\$ 3,600	\$ 3,123	15.3	\$ 6,995	\$ 6,239	12.1

Net Interest Income. Net interest income increased \$477,000, or 15.3%, in the quarter ended December 31, 2010, as compared to the prior year quarter. The increase in net interest income is primarily the result of an increase in interest-earning assets, partially offset by the increase in interest-bearing liabilities resulting from the acquisition of three branches from Integra Bank in June, 2010.

Net interest income increased \$756,000, or 12.1%, in the six months ended December 31, 2010, as compared to the same period in the prior year. The increase in net interest income is also primarily attributable to the previously mentioned acquisition of three branches.

Edgar Filing: United Community Bancorp - Form 10-Q

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three and six months ended December 31, 2010 and 2009. For the purposes of this table, average balances have been calculated using month-end balances, and nonaccrual loans are included in average balances only. Yields are not presented on a tax equivalent basis.

	Three Months Ended December 31,						Six Months Ended December 31,					
	2010			2009			2010			2009		
	Average	Interest	Yield/	Average	Interest	Yield/	Average	Interest	Yield/	Average	Interest	Yield/
	Balance	and	Cost	Balance	and	Cost	Balance	and	Cost	Balance	and	Cost
	(Dollars in thousands)											
Interest-earning assets:												
Cash and money market securities	\$ 303,304	\$ 4,354	5.74%	\$ 271,979	\$ 3,997	5.88%	\$ 305,231	\$ 8,681	5.69%	\$ 272,664	\$ 8,158	5.92%
Time deposits	126,960	672	2.12	82,727	711	3.44	125,052	1,370	2.19	80,888	1,368	3.29
Interest-earning securities	42,857	7	0.07	28,814	3	0.04	38,203	12	0.06	27,442	6	0.08
Other interest-earning assets	473,121	5,033	4.26	383,520	4,711	4.91	468,486	10,063	4.30	380,994	9,532	5.05
Total interest-earning assets	29,439			23,658			29,655			23,545		
Total	\$ 502,560			\$ 407,178			498,141			\$ 404,539		
Interest-bearing liabilities:												
Savings and money market deposits	157,909	199	0.50	122,260	197	0.64	157,610	483	0.61	125,723	454	0.63
Checking accounts	62,994	71	0.45	41,095	33	0.32	59,477	135	0.45	40,881	65	0.32
Certificates of deposit (1)	219,526	1,143	2.08	181,580	1,330	2.93	218,980	2,408	2.20	175,645	2,716	3.08
Other interest-bearing liabilities	440,429	1,413	1.28	344,935	1,560	1.81	436,067	3,026	1.39	342,249	3,235	1.99
Total interest-bearing liabilities	2,458	20	3.25	3,458	28	3.24	2,584	42	3.25	3,583	58	3.24
Total	442,887	1,433	1.29	348,393	1,588	1.82	438,651	3,068	1.40	345,832	3,293	1.97
Interest bearing liabilities	3,894			3,233			3,919			3,366		
Total liabilities	446,781			351,626			442,570			349,198		
Total interest-bearing liabilities	55,779			55,552			55,571			55,341		
Total	\$ 502,560			\$ 407,178			\$ 498,141			\$ 404,539		

Liabilities					
Stockholders'					
Interest income	\$ 3,600		\$ 3,123		\$ 6,995
Net rate spread		2.97%		3.09%	2.90%
Interest margin (annualized)		3.04%		3.26%	2.99%
Return on average interest-bearing assets		106.83%		110.08%	106.80%

1) Includes municipal deposits

Provision for Loan Losses. The provision for loan losses was \$737,000 for the three months ended December 31, 2010 compared to \$324,000 for the three months ended December 31, 2009. The provision for loan loss for the six months ended December 31, 2010 was \$1.5 million, compared to \$946,000 for the same period in the prior year. The increase in the provision for loan losses is the result of Management's assessment of the potential impact of a weak economy on the loan portfolio.

The following table provides information with respect to our nonperforming assets at the dates indicated. We did not have any accruing loans past due 90 days or more at the dates presented.

	At December 31, 2010	At June 30, 2010	% Change
(Dollars in thousands)			
Nonaccrual loans:			
Residential real estate:			
One- to four-family	\$ 3,178	\$ 2,436	30.5%
Multifamily	13,614	5,245	159.6
Nonresidential real estate and land	6,076	2,738	121.9
Consumer and other loans	585	155	277.4
Total	23,453	10,574	121.8
Real estate and other assets owned	152	297	(48.8)
Total nonperforming assets	\$ 23,605	\$ 10,871	117.1
Total nonperforming loans to total loans	7.87%	3.42%	130.1
Total nonperforming loans to total assets	4.78%	2.15%	122.3
Total nonperforming assets to total assets	4.81%	2.21%	117.6

On an ongoing basis, Management evaluates the Bank's allowance for loan loss for adequacy. As part of this evaluation, Management considers the amounts and types of loans, concentrations, the value of underlying collateral, current economic conditions, and other relevant information, such as the size of the overall portfolio. Based upon this evaluation, Management calculates the provision for loan loss in the current period. The increase in the current year is primarily the result of the increase in balances in nonperforming loans from June 30, 2010 to December 31, 2010. During this period, nonperforming loans increased from \$10.6 million to \$23.5 million, compared to a decrease of \$2.0 million in nonperforming loans from \$6.0 million to \$4.0 million for the same period in the prior year. However, nonperforming loans as a percentage of total loans increased by 28.8% for the quarter ended December 31, 2010, compared to 78.7% for the quarter ended September 30, 2010. The increase in nonperforming loans is primarily the result of an increase in troubled debt restructurings from \$9.0 million at June 30, 2010 to \$20.1 million at December 31, 2010. The increase is due to the addition of six loans covering two loan relationships. For one relationship, two of the loans are for apartment buildings and one loan is for a mobile home park. For the other relationship, all three loans are for retail shopping centers. As of December 31, 2010, Management believes there is collateral securing these loans as well as adequate reserves established for these loans to cover any losses that may result from these nonperforming loans. Once a sufficient payment history is established, the loan continues to be classified as a TDR and is no longer included in nonaccrual loans.

Edgar Filing: United Community Bancorp - Form 10-Q

Other Income. The following table summarizes other income for the three and six months ended December 31, 2010 and 2009.

	Three Months Ended December 31,			Six Months Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
	(Dollars in thousands)					
Service charges	\$ 606	\$ 514	17.9%	\$ 1,207	\$ 996	21.2%
Gain on sale of loans	215	110	95.5	442	196	125.5
Gain on sale of investments	-	51	(100.0)	44	39	12.8
Gain (loss) on other real estate owned	(27)	-	(100.0)	(25)	20	(225.0)
Income from Bank Owned Life Insurance	70	82	(14.6)	139	139	-
Other	109	185	(41.1)	161	238	(32.4)
Total	\$ 973	\$ 942	3.3	\$ 1,968	\$ 1,628	20.9

The increase in noninterest income is primarily the result of the previously mentioned acquisition of three branches and an increase in loans sold to Freddie Mac.

Other Expense. The following table summarizes other expense for the three and six months ended December 31, 2010 and 2009.

	Three Months Ended December 31,			Six Months Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
	(Dollars in thousands)					
Compensation and employee benefits	\$ 1,687	\$ 1,441	17.1%	\$ 3,358	\$ 2,912	15.3%
Premises and occupancy expense	336	278	20.9	645	554	16.4
Deposit insurance premium	180	193	(6.7)	408	413	(1.2)
Advertising expense	117	85	37.6	218	176	23.9
Data processing expense	96	64	50.0	180	120	50.0
ATM Service fees	125	110	13.6	263	217	21.2
Provision for loss on the sale of other real estate owned	-	200	(100.0)	-	300	(100.0)
Acquisition expense	-	-	-	38	-	100.0
Other	663	698	(5.0)	1,345	1,252	7.4
Total	\$ 3,204	\$ 3,069	4.4	\$ 6,455	\$ 5,944	8.6

The increase in noninterest expenses is primarily the result of the previously mentioned acquisition of three branches.

Income Taxes. Income tax expense decreased to \$53,000 for the three months ended December 31, 2010 from \$196,000 for the three months ended December 31, 2009. Income tax expense decreased to \$202,000 for the six months ended December 31, 2010, compared to \$279,000 for the same period in 2009. The decrease in expense for the three and six month periods is primarily due to the receipt of a prior period state tax refund during the current period.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the Federal Home Loan Bank of Indianapolis. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows, in particular municipal deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. Cash and cash equivalents totaled \$19.3 million at December 31, 2010 and \$32.0 million at June 30, 2010. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled \$88.4 million at December 31, 2010 and \$104.1 million at June 30, 2010. Total securities classified as available-for-sale were \$140.7 million at December 31, 2010 and \$119.3 million at June 30, 2010. In addition, at December 30, 2010 and June 30, 2010, we had the ability to borrow a total of approximately \$72.5 million and \$83.0 million, respectively, from the Federal Home Loan Bank of Indianapolis.

At December 31, 2010, we had \$27.9 million in loan commitments outstanding, consisting of \$1.9 million in mortgage loan commitments, \$162,000 in commercial loan commitments, \$19.5 million in unused home equity lines of credit, \$5.5 million in commercial lines of credit, \$171,000 in undisbursed balances on construction loans, and \$713,000 in letters of credit outstanding. At June 30, 2010, we had \$38.7 million in loan commitments outstanding, consisting of \$1.1 million in mortgage loan commitments, \$4.3 million in commercial loan commitments, \$26.6 million in unused home equity lines of credit, \$5.8 million in commercial lines of credit, and \$856,000 in letters of credit outstanding. Certificates of deposit due within one year of December 31, 2010 totaled \$147.5 million. This represented 67.9% of certificates of deposit at December 31, 2010. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2010. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination and purchase of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and Federal Home Loan Bank advances. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to increase core deposit relationships. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

Capital Management. The Bank is subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2010, the Bank exceeded all of its regulatory capital requirements to be considered "well capitalized" under the FDIC's regulatory framework for prompt corrective action at that date.

The following table summarizes the Bank's capital amounts and the ratios required at December 31, 2010:

	Actual		For capital adequacy purposes (in thousands)		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets	46,518	15.75%	11,815	4%	17,723	6%
Total capital to risk-weighted assets	49,621	16.80%	23,631	8%	29,538	10%
Tier 1 capital to adjusted total assets	46,518	9.61%	19,369	4%	24,211	5%
Tangible capital to adjusted total assets	46,518	9.61%	7,263	1.5%		

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. For information about our loan commitments and unused lines of credit, see Note 15 of the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2010, as filed with the SEC. We currently have no plans to engage in hedging activities in the future.

For the six months ended December 31, 2010, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of the Company's asset and liability management policies as well as the potential impact of interest rate changes upon the market value of the Company's portfolio equity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 28, 2010. The main components of market risk for the Company are interest rate risk and liquidity risk. The Company manages interest rate risk and liquidity risk by establishing and monitoring the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals. Model simulation is used to measure earnings volatility under both rising and falling rate scenarios.

We use a net portfolio value analysis prepared by the Office of Thrift Supervision to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. Because of the low level of market interest rates, this analysis is not performed for decreases of more than 100 basis points.

The following table, which is based on information that we provide to the Office of Thrift Supervision (OTS), presents the change in our net portfolio value at September 30, 2010, which is the most recent date for which data is available, that would occur in the event of an immediate change in interest rates based on Office of Thrift Supervision assumptions, with no effect given to any steps that we might take to counteract that change:

Basic Point ("bp") Change in Rates	Amount	Net Portfolio Value (Dollars in thousands)		Net Portfolio Value as % of Portfolio Value of Assets	
		Change	% Change	NPV Ratio	Change (bp)
300	\$ 49,223	\$ (5,226)	(10)%	9.93%	(81) bps
200	52,842	(1,607)	(3)%	10.55%	(19)
100	53,952	(498)	(1)%	10.70%	(4)
50	54,133	(317)	(1)%	10.71%	(3)
0	54,449	-	-	10.74%	-
(50)	55,051	601	1%	10.82%	8
(100)	55,150	700	1%	10.83%	9

The OTS uses various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans and mortgage-backed

securities we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

Item 4. Controls and Procedures.

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. During the quarterly period ended December 31, 2010, there were no changes in the Company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens and contracts, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no repurchases of the Company's common stock during the six month period ended December 31, 2010.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

Item 4. [Removed and Reserved]

Item 5. OTHER INFORMATION

Not applicable

Item 6. EXHIBITS

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

Exhibit 32 Section 1305 Certifications

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED COMMUNITY BANCORP

Date: February 14, 2011

By: /s/ William F. Ritzmann
William F. Ritzmann
President and Chief Executive Officer

Date: February 14, 2011

By: /s/ Vicki A. March
Vicki A. March
Senior Vice President, Chief Financial
Officer
and Treasurer