United Community Bancorp
Form 10-Q
February 17, 2015

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, 2014

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: 0-54876

United Community Bancorp

(Exact name of registrant as specified in its charter)

Indiana **80-0694246**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

92 Walnut Street, Lawrenceburg, Indiana **47025**
(Address of principal executive offices) (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 x 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 x No ¨

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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of February 12, 2015, there were 4,634,608 shares of the registrant’s common stock outstanding.

UNITED COMMUNITY BANCORP

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Signatures

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, 2014	June 30, 2014
Assets		
Cash and due from banks	$ 2,379	$ 5,265
Interest-earning deposits in other financial institutions	18,637	19,705
Cash and cash equivalents	21,016	24,970
Investment securities:		
Securities available for sale - at estimated market value	41,181	39,965
Securities held to maturity - at amortized cost	21,615	337
Mortgage-backed securities available for sale - at estimated market value	135,435	179,017
Investment securities	198,231	219,319
Loans receivable, net	249,611	244,384
Loans available for sale	134	138
Property and equipment, net	7,070	7,115
Federal Home Loan Bank stock, at cost	5,339	6,588
Accrued interest receivable:		
Loans	850	806
Investments and mortgage-backed securities	863	828
Other real estate owned, net	707	598
Cash surrender value of life insurance policies	17,196	16,927
Deferred income taxes	2,954	3,510
Prepaid expenses and other assets	1,958	2,213
Goodwill	2,522	2,522
Intangible asset	487	547
Total assets	508,938	$ 530,465
Liabilities and Stockholders' Equity		
Deposits	$ 420,552	$ 439,636
Advances from FHLB	15,000	15,000

Accrued interest on deposits	10	14
Accrued interest on FHLB advance	11	11
Advances from borrowers for payment of insurance and taxes	301	228
Accrued expenses and other liabilities	2,276	2,646
Total liabilities	438,150	457,535
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value; 25,000,000 shares authorized, 5,149,564 shares issued at December 31, 2014 and June 30, 2014; 4,634,608 and 4,959,842 shares outstanding at December 31, 2014 and June 30, 2014, respectively	51	51
Additional paid-in capital	51,239	51,044
Retained earnings	29,147	28,581
Less shares purchased for stock plans	(3,300)	(3,504)
Treasury Stock, at cost - 514,956 and 189,722 shares at December 31, 2014 and June 30, 2014, respectively	(6,011)	(2,151)
Accumulated other comprehensive income (loss):		
Unrealized loss on securities available for sale, net of income taxes	(338)	(1,091)
Total stockholders' equity	70,788	72,930
Total liabilities and stockholders' equity	$ 508,938	$ 530,465

See accompanying notes to the consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except share amounts)

(In thousands, except per share data)	For the Three Months Ended December 31, 2014	2013	For the Six Months Ended December 31, 2014	2013
Interest income:				
Loans	$ 2,857	$ 2,972	$ 5,706	$ 6,069
Investments and mortgage-backed securities	950	796	1,862	1,458
Total interest income	3,807	3,768	7,568	7,527
Interest expense:				
Deposits	520	581	1,134	1,286
Borrowed funds	63	57	126	100
Total interest expense	583	638	1,260	1,386
Net interest income	3,224	3,130	6,308	6,141
Provision for (recovery of) loan losses	36	75	45	(367)
Net interest income after provision for (recovery of) loan losses	3,188	3,055	6,263	6,508
Other income:				
Service charges	710	644	1,381	1,295
Gain on sale of loans	33	39	60	126
Loss on sale of investments	(32)	-	(53)	-
Gain on sale of other real estate owned	52	8	71	7
Gain on sale of fixed assets	-	-	-	136
Income from bank owned life insurance	135	104	269	212
Other	75	216	129	287
Total other income	973	1,011	1,857	2,063
Other expense:				
Compensation and employee benefits	1,914	1,817	3,730	3,620
Premises and occupancy expense	284	293	623	597
Deposit insurance premium	89	79	188	176
Advertising expense	111	72	213	178
Data processing expense	417	339	756	745
Provision for loss on real estate owned	-	-	-	1

Intangible amortization	30	36	60	75
Professional fees	159	227	473	516
Other operating expenses	408	431	775	834
Total other expense	3,412	3,294	6,818	6,742
Income before income taxes	749	772	1,302	1,829
Income tax provision	81	190	155	485
Net income	$ 668	$ 582	$ 1,147	$ 1,344
Basic and diluted earnings per share	$ 0.15	$ 0.12	$ 0.25	$ 0.28

See accompanying notes to the consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
Net income	$ 668	582	$ 1,147	$ 1,344
Other comprehensive income (loss), net of tax Unrealized gain (loss) on securities available for sale	657	294	720	(441)
Reclassification adjustment for losses on securities available for sale included in income	20	-	33	-
Total comprehensive income	$ 1,345	$ 876	$ 1,900	$ 903

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)	For the Six Months Ended December 31, 2014	2013
Operating activities:		
Net income	$ 1,147	$ 1,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	217	201
Provision for (recovery of) loan losses	45	(367)
Deferred loan origination costs	(63)	(14)
Amortization of premium on investments	1,411	1,968
Proceeds from sale of loans	1,735	9,562
Loans disbursed for sale in the secondary market	(1,671)	(9,019)
Gain on sale of loans	(60)	(126)
Amortization of intangible asset	60	75
Amortization of acquisition-related loan yield adjustment	(116)	75
Amortization of acquisition-related credit risk adjustment	-	(257)
Loss on sale of investment securities	53	-
Gain on sale of fixed assets	-	(136)
Provision for loss on real estate owned	-	1
Gain on sale of other real estate owned	(71)	(7)
Increase in cash surrender value of life insurance	(269)	(212)
Stock-based compensation	135	-
ESOP shares committed to be released	268	229
Deferred income taxes	74	209
Effects of change in operating assets and liabilities:		
Accrued interest receivable	(79)	(60)
Prepaid expenses and other assets	255	(40)
Accrued interest	(4)	(6)
Accrued expenses and other	(376)	(268)
Net cash provided by operating activities	2,691	3,152
Investing activities:		
Proceeds from maturity of available for sale investment securities	45	-
Proceeds from sale of available for sale investment securities	-	45
Proceeds from maturity of held to maturity securities	26	24
Proceeds from repayment of mortgage-backed securities available for sale	16,389	20,692

Proceeds from sale of mortgage-backed securities available for sale	31,162	-
Proceeds from sale of fixed assets	-	425
Proceeds from sale of other real estate owned	164	85
Purchases of available for sale investment securities	(791)	(4,106)
Purchases of held to maturity investment securities	(21,316)	-
Purchases of mortgage-backed securities available for sale	(4,654)	(21,476)
Proceeds from sale of Federal Home Loan Bank stock	1,249	-
Net (increase) decrease in loans	(5,295)	7,716
Capital expenditures	(172)	(468)
Net cash provided by investing activities	16,807	2,937
Financing activities:		
Net decrease in deposits	(19,084)	(777)
Borrowings from Federal Home Loan Bank	5,000	5,000
Repayments of Federal Home Loan Bank advances	(5,000)	(5,000)
Dividends paid to stockholders	(581)	(504)
Repurchases of common stock	(3,860)	-
Net increase (decrease) in advances from borrowers for payment of insurance and taxes	73	(42)
Net cash used in financing activities	(23,452)	(1,323)
Net increase (decrease) in cash and cash equivalents	(3,954)	4,766
Cash and cash equivalents at beginning of period	24,970	16,787
Cash and cash equivalents at end of period	$ 21,016	$ 21,553

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, a federal corporation ("old United Community Bancorp") completed its previously announced conversion from the mutual holding company form of organization to the stock holding company form on January 9, 2013. As a result of the conversion, United Community Bancorp, an Indiana corporation ("United Community Bancorp" or "Company"), became the holding company for United Community Bank ("Bank"), and United Community MHC and old United Community Bancorp, ceased to exist. As part of the conversion, all outstanding shares of old United Community Bancorp common stock (other than those owned by United Community MHC) were converted into the right to receive 0.6573 of a share of United Community Bancorp common stock.

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. UCB Financial Services, Inc., a wholly-owned subsidiary of the Bank, was formed for the purpose of collecting commissions on investments referred to Lincoln Financial Group.

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 months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015. These financial statements should be read in conjunction the Company's audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2014, which are included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 26, 2014.

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, 2014 and June 30, 2014, the ESOP owned 205,747 and 237,893 shares of the Company's common stock, respectively. The shares owned by the ESOP are held in a suspense account until released for allocation to participants.

3. EARNINGS PER SHARE ("EPS") – 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 earnings per share. 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, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effects of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. For each of the three and six months ended December 31, 2014 and 2013, outstanding options to purchase 227,626 shares were excluded from the computations of diluted earnings per share 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:

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Basic weighted average outstanding shares	4,421,455	4,875,257	4,502,524	4,875,257
Effect of dilutive stock options	—	—	—	—
Diluted weighted average outstanding shares	4,421,455	4,875,257	4,502,524	4,875,257

4. STOCK-BASED COMPENSATION – The Company applies the provisions of ASC 718, *Compensation – Stock 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 a straight-line basis pursuant to ASC 718. 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. Stock-based compensation expense was $65,000 and $-0- for the three months ended December 31, 2014 and 2013, respectively and $135,000 and $-0- for the six months ended December 31, 2014 and 2013, respectively. No stock-based compensation awards were granted during the three and six months ended December 31, 2014 and 2013.

5. DIVIDENDS – On July 24, 2014 and November 14, 2014, the Board of Directors of the Company declared cash dividends on the Company’s outstanding shares of stock of $0.06 per share for each period. The dividends, totaling $581,000, were paid during the six months ended December 31, 2014.

6. STOCK REPURCHASE PLAN – On February 3, 2014 the Company’s board of directors approved the repurchase of up to 514,956 shares of the Company’s outstanding common stock, which represented approximately 10% of the Company’s outstanding shares at that date. Purchases were conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of December 31, 2014, all 514,956 shares were repurchased at a total cost of $6.0 million. Of these shares, 325,234 were repurchased during the six months ended December 31, 2014 at a total cost of $3.9 million.

7. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended December 31,	
	2014	2013
	(Dollars in thousands)	
Supplemental disclosure of cash flow information is as follows:		
Cash paid during the period for:		

Income taxes	$ 32	$ 522
Interest	$ 1,264	$ 1,392
Supplemental disclosure of non-cash investing and financing activities is as follows:		
Unrealized gain (loss) on securities designated as available for sale, net of tax	$ 753	$ (441)
Transfers of loans to other real estate owned	$ 202	$ 260
Beginning of period adjustment from transfer of mortgage servicing rights from amortized cost method to fair value method, net of tax	$ -	$ 45

8. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES - ASC 820, *Fair Value Measurements and Disclosures*, requires disclosure of the fair value of financial instruments, both assets and liabilities, whether or not recognized in the consolidated balance sheet, for which it is practicable to estimate the value. For financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

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

Cash and cash equivalents

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.

Advances 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.

The estimated fair values of the Company's financial instruments at December 31, 2014 and June 30, 2014 are as follows:

	December 31, 2014		June 30, 2014	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and due from banks	$21,016	$21,016	$24,970	$24,970
Investment securities available for sale	41,181	41,181	39,965	39,965
Investment securities held to maturity	21,615	21,698	337	337
Mortgage-backed securities	135,435	135,435	179,017	179,017
Loans receivable and loans receivable held for sale	249,745	251,107	244,522	245,150
Accrued interest receivable	1,713	1,713	1,634	1,634
Investment in FHLB stock	5,339	5,339	6,588	6,588
Financial liabilities:				
Deposits	420,552	421,545	439,636	440,849
Accrued interest payable	21	21	25	25
FHLB advances	15,000	15,072	15,000	15,041

Off-balance sheet items	$—	$—	$—	$—

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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.

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.

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, 2014:				
Mortgage-backed securities	$135,435	$ —	$ 135,435	$ —
Municipal bonds	38,999	—	38,999	—
U.S. Government Agency Bonds	1,994	—	1,994	—
Other equity securities	188	188	—	—
Mortgage servicing rights	632	—	632	—
June 30, 2014:				

Mortgage-backed securities	$179,017	$ —	$ 179,017	$ —
Municipal bonds	37,815	—	37,815	—
U.S. Government Agency Bonds	1,992	—	1,992	—
Other equity securities	158	158	—	—
Mortgage servicing rights	722	—	722	—

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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, 2014:				
Other real estate owned	$707	$ —	$ 707	$ —
Loans held for sale	134	—	134	—
Impaired loans	12,704	—	12,704	—
June 30, 2014:				
Other real estate owned	$598	$ —	$ 598	$ —
Loans held for sale	138	—	138	—
Impaired loans	15,445	—	15,445	—

The adjustments to other real estate owned and impaired loans are based primarily on appraisals of the real estate, cash flow analysis or other observable market prices. The Bank's policy is that fair values for these assets are based on current appraisals or cash flow analysis.

The following table presents fair value measurements for the Company's financial instruments which are not recognized at fair value in the accompanying statements of financial position on a recurring or 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)
December 31, 2014:				
Financial assets:				
Cash and interest bearing deposits	$21,016	$ 21,016	$ —	$ —
Investment securities held to maturity	21,698	—	21,698	—
Loans receivable and loans held for sale	251,107	—	251,107	—
Accrued interest receivable	1,713	—	1,713	—
Investment in FHLB stock	5,339	—	5,339	—
Financial liabilities:				
Deposits	421,545	—	421,545	—
Accrued interest payable	21	—	21	—

FHLB advances	15,072	—	15,072	—
June 30, 2014:				
Financial assets:				
Cash and interest bearing deposits	$24,970	$ 24,970	$ —	$ —
Investment securities held to maturity	337	—	337	—
Loans receivable and loans held for sale	245,150	—	245,150	—
Accrued interest receivable	1,634	—	1,634	—
Investment in FHLB stock	6,588	—	6,588	—
Financial liabilities:				
Deposits	440,849	—	440,849	—
Accrued interest payable	25	—	25	—
FHLB advances	15,041	—	15,041	—

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9. INVESTMENT SECURITIES

Investment securities available for sale at December 31, 2014 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	$ 136,284	$ 406	$ 1,255	$ 135,435
Municipal bonds	38,676	692	369	38,999
U.S. Government Agency Bonds	2,000	-	6	1,994
Other equity securities	210	—	22	188
	$ 177,170	$ 1,098	$ 1,652	$ 176,616

Investment securities held to maturity at December 31, 2014 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	$ 21,615	$ 151	$ 68	$ 21,698

Investment securities available for sale at June 30, 2014 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	$ 180,563	$ 501	$ 2,047	$ 179,017
Municipal bonds	38,000	479	664	37,815
U.S. Government Agency Bonds	2,000	—	8	1,992
Other equity securities	210	—	52	158
	$ 220,773	$ 980	$ 2,771	$ 218,982

Investment securities held to maturity at June 30, 2014 consisted of the following:

Amortized Cost	Gross Unrealized	Gross Unrealized	Estimated Market

		Gains	Losses	Value
Municipal Bonds	$ 337	$ —	$ —	$ 337

The mortgage-backed securities, callable bonds and municipal bonds have the following maturities at December 31, 2014:

	Available for Sale		Held to Maturity	
	Amortized cost	Estimated market value	Amortized cost	Estimated market value
Due or callable in one year or less	$-	$-	$87	$ 88
Due or callable in 1 - 5 years	126,329	125,455	224	234
Due or callable in 5 - 10 years	40,546	40,688	5,078	5,051
Due or callable in greater than 10 years	10,085	10,285	16,226	16,325
Total debt securities	$176,960	$176,428	$21,615	$ 21,698

All other securities available for sale at December 31, 2014 are saleable within one year.

Gross proceeds on the sale of investment and mortgage-backed securities were $4.3 million and $-0- for the three months ended December 31, 2014 and 2013, respectively. Gross proceeds on the sale of investment and mortgage-backed securities were $31.2 million and $45,000 for the six months ended December 31, 2014 and 2013, respectively. Gross realized gains for the three and six months ended December 31, 2014 were $11,000 and $260,000, respectively. Gross realized losses for the three and six months ended December 31, 2014 were $43,000 and $313,000, respectively. There were no gross realized gains or losses for the three and six months ended December 31, 2013.

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, 2014:

	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	$18,473	$ 20	$ 69,335	$ 1,235	$87,808	$ 1,255
Municipal bonds	11,033	114	12,734	323	23,767	437
U.S. Government agency bonds	1,994	6	-	-	1,994	6
Other equity securities	-	-	188	22	188	22
	$31,500	$ 140	$ 82,257	$ 1,580	$113,757	$ 1,720
Number of investments	33		51		84	

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.

10. GOODWILL AND INTANGIBLE ASSET

In June 2010, old United Community Bancorp 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.

As permitted by current accounting rules, the Company completed its qualitative assessment to determine whether current events or changes in circumstances lead to a determination that it is more likely than not, as defined, that the fair value of the reporting unit is less than its carrying amount. Based upon the Company's assessment, there was no such determination that the fair value of the reporting unit is less than its carrying amount. Accordingly, the Company did not apply the traditional two-step goodwill impairment test.

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The following table indicates changes to the core deposit intangible asset and goodwill balances for the six months ended December 31, 2014:

	Core Deposit Intangible	Goodwill
	(In thousands)	
Balance at June 30, 2014	$547	$ 2,522
Amortization	(60)	-
Balance at December 31, 2014	$487	$ 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, 2014:

January 1, 2015 through June 30, 2015	$	58
2016		117
2017		117
2018		117
2019		78
	$	487

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

The following tables illustrate certain disclosures required by ASC 310-10-50-11B(c), (g) and (h), the changes to the allowance for loan losses, for the three and six months ended December 31, 2014 (in thousands):

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Balance, October 1, 2014:	$ 1,325	$ 564	$ 162	$ 892	$ 2,555	$ 7	$ 20	$ 39	$ 5,564
Charge offs	(15)	(76)	-	-	(466)	-	-	-	(557)
Recoveries	4	23	9	-	-	-	-	1	37
Provision (credit)	21	77	(19)	(296)	249	6	(3)	1	36
Ending Balance:	$ 1,335	$ 588	$ 152	$ 596	$ 2,338	$ 13	$ 17	$ 41	$ 5,080
Allowance for Credit Losses:									
Balance, July 1, 2014:	$ 1,196	$ 564	$ 201	$ 929	$ 2,508	$ 5	$ 19	$ 37	$ 5,459
Charge offs	(27)	(99)	(3)	-	(466)	-	-	-	(595)
Recoveries	61	47	60	-	1	-	-	2	171
Provision (credit)	105	76	(106)	(333)	295	8	(2)	2	45
Ending Balance:	$ 1,335	$ 588	$ 152	$ 596	$ 2,338	$ 13	$ 17	$ 41	$ 5,080
Balance, Individually Evaluated	$ -	$ -	$ -	$ -	$ 120	$ -	$ -	$ -	$ 120
Balance, Collectively Evaluated	$ 1,335	$ 588	$ 152	$ 596	$ 2,218	$ 13	$ 17	$ 41	$ 4,960

Financing receivables: Ending balance	$ 120,685	$ 34,816	$ 14,944	$ 21,791	$ 46,769	$ 3,861	$ 3,242	$ 8,881	$ 254,989
Ending Balance: individually evaluated for impairment	$ 3,510	$ 477	$ 665	$ 1,646	$ 6,341	$ -	$ 185	$ -	$ 12,824
Ending Balance: collectively evaluated for impairment	$ 110,438	$ 30,998	$ 13,855	$ 20,145	$ 40,267	$ 3,861	$ 3,033	$ 8,502	$ 231,099
Ending Balance: loans acquired with deteriorated credit quality	$ 6,737	$ 3,341	$ 424	$ -	$ 161	$ -	$ 24	$ 379	$ 11,066

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For the year ended June 30, 2014 (in thousands):

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Beginning balance:	$ 942	$ 553	$ 215	$ 1,286	$ 2,386	$ 10	$ 17	$ 34	$ 5,443
Charge offs	(554)	(159)	(52)	(430)	(30)	-	(15)	(4)	(1,244)
Recoveries	436	133	3	644	29	-	24	3	1,272
Other adjustment	8	4	-	-	108	-	-	-	120
Provision (credit)	364	33	35	(571)	15	(5)	(7)	4	(132)
Ending Balance:	$ 1,196	$ 564	$ 201	$ 929	$ 2,508	$ 5	$ 19	$ 37	$ 5,459
Balance, Individually Evaluated	$ -	$ -	$ -	$ -	$ 120	$ -	$ -	$ -	$ 120
Balance, Collectively Evaluated	$ 1,196	$ 564	$ 201	$ 929	$ 2,388	$ 5	$ 19	$ 37	$ 5,339
Financing receivables:									
Ending balance	$ 114,486	$ 34,669	$ 14,998	$ 23,645	$ 48,769	$ 2,880	$ 3,391	$ 7,970	$ 250,808
Ending Balance: individually evaluated for impairment	$ 3,425	$ 544	$ 503	$ 2,863	$ 7,763	$ -	$ 20	$ -	$ 15,118
Ending Balance: collectively evaluated for impairment	$ 103,417	$ 30,358	$ 13,932	$ 20,782	$ 40,747	$ 2,880	$ 3,346	$ 7,453	$ 222,915
	$ 7,644	$ 3,767	$ 563	$ -	$ 259	$ -	$ 25	$ 517	$ 12,775

Ending Balance:
loans acquired
with
deteriorated
credit quality

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Federal regulations require us to review and classify our assets on a regular basis. In addition, the OCC has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified "loss" is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a "special mention" category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. When we classify an asset as special mention, we account for those classifications when establishing a general allowance for loan losses. If we classify an asset as substandard, doubtful or loss, we establish a specific allocation for the asset at that time.

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

Credit Risk Profile by Internally Assigned Grade

At December 31, 2014

(in thousands)

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 111,547	$ 32,980	$ 8,284	$ 16,167	$ 28,816	$ 3,861	$ 1,676	$ 7,035	$ 210,366
Watch	5,282	1,197	5,210	3,644	9,313	—	491	1,840	26,977
Special mention	346	161	443	334	2,203	—	890	4	4,381
Substandard	3,510	478	1,007	1,646	6,437	—	185	2	13,265
Total:	$ 120,685	$ 34,816	$ 14,944	$ 21,791	$ 46,769	$ 3,861	$ 3,242	$ 8,881	$ 254,989

Credit Risk Profile by Internally Assigned Grade

At June 30, 2014

(in thousands)

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 104,266	$ 32,898	$ 9,210	$ 16,573	$ 29,539	$ 2,880	$ 1,591	$ 5,951	$ 202,908
Watch	6,067	913	4,531	3,867	9,001	—	723	2,019	27,121
Special mention	370	120	753	342	2,368	—	1,057	—	5,010
Substandard	3,783	738	504	2,863	7,861	—	&		