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UCFC - United Community Financial Corp., First Defiance Financial Corp., First Federal Bank of the Midwest, Home Savings Bank - M&A Call

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PRESENTATION

Operator

Good morning, and welcome to the First Defiance-United Community Better Together conference call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Tera Murphy, Vice President, Marketing Director. Please go ahead.

Tera Murphy - *First Defiance Financial Corp. - VP & Marketing Director*

Thank you. Good morning, everyone, and thank you for joining us for today's First Defiance Financial Corp. and United Community Financial Corp. Better Together conference call. This call is also being webcast, and a replay of this conference call will be available beginning 1 hour after the completion of this call, and the webcast will be archived on the First Defiance website at fdef.com and on United Community's website at ir.ucfconline.com.

Providing commentary this morning will be Donald T. Hileman, President and CEO of First Defiance; Gary M. Small, President and CEO of United Community; and Paul Nungester, Executive Vice President and Chief Financial Officer of First Defiance. Following their comments on the financial aspects and other details of this strategic merger, they will be available to take your questions.

Before we begin, I'd like to remind you that during the conference call today, including during the question-and-answer period, you may hear forward-looking statements related to future financial results and business operations for First Defiance Financial Corp., United Community Financial Corp. and the combined company. Actual results may differ materially from current management forecasts and projections as a result of factors over which the companies have no control. Information on these risk factors and additional information on forward-looking statements are included in the news release and in the companies' reports on file with the Securities and Exchange Commission.

And now I'll turn the call over to Mr. Hileman for his comments.

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

Good morning, and thank you for joining us this morning. We are excited to announce the strategic partnership between First Defiance and United Community. We look at this as a very transformative partnership that allows us to position ourselves as a premier community bank with over $6 billion in assets, and we expect best-in-class performance with strong ratios for ROA and return on tangible equity.

A lot of the merits from a strategically compelling point of view as we look at this transaction are enhanced scale; we feel this is one of our longtime strategic goals independently as companies is to continue to drive efficiencies through scale. Growth opportunities, profitability and performance all are enhanced through this transaction. It also accelerates our product agendas and improves customer experiences through the efficiencies that we've identified through this process.

We believe it delivers best of the both institutions' talent, technology and processes, as we'll go through an integration process of determining those decisions but we feel we have great opportunity there. It enhances our management depth and capacity, and we will look to be a larger organization with the challenges of leadership, we're very comfortable with the management depth and capacity to handle the size of our organization going forward.

The other opportunity, it accelerates shareholder value accretion in our minds. A material EPS accretion of approximately 14% run rate accretion to First Defiance with fully phased-in cost savings, a manageable tangible book value dilution of 4% earned back in approximately 1.8 years. And in our model we have, we believe, conservative and achievable cost savings supported by a bottom-up analysis in those areas.

Think of another very important feature that we spent a lot of time talking about leading up to this transaction is the shared values of our 2 companies as well as familiarity of the leadership teams at both companies. Culture is very important, and we've talked about that independently as making sure we have the same model of customer delivery, customer focus going forward and we think we do, and that will be a strength that we have in delivering in a competitive marketplace, but also making sure that drives itself through our organization will be a focus of Gary and myself as we go forward.

Leadership and that familiarity, Gary and I have known each other for quite a while. We both were in the Sky Bank organization, and several other of the key leaders that we both have worked with in the past are going to be with the combined organization. So we look to that leadership familiarity and the strategic focus to helping mitigate some of the integration risk. We speak of like mind, if you will, on a lot of areas and think about things in the same way. So we look at -- we haven't had a lot of conflicts to this point and we would not expect that going forward, so that should be some benefit when we start talking about integration and decisioning process. And we have some prior track record in this, although on the smaller scale, but we have gone through this on both sides of the coin.

So with that, Gary, I'll turn it over to you.

Gary M. Small - *United Community Financial Corp. - President, CEO & Director*

Thank you, Don. I'll have you all move to the next slide where we get a look at our footprint across the markets. And as you can see, we really have the Northern Ohio, the breadth of Northern Ohio covered with our combined franchises. The complementary geography, there's really no branch overlaps. But we do benefit from similarity in the types of markets that we serve, so back to Don's comment of I think we would understand each other's client and opportunity very well, and the fact that we can pretty much compete against many of the same folks in the marketplace, which makes for sort of a predictable go-to-market, we know how to -- how the ways to win their heart as well. We do serve a multitude of really great community markets along with 8 metro markets as part of the compliant group, which always provides some additional opportunity relative to capital deployment and so forth.

We look to the next slide, which is a view of our balance sheet, you'll find that we have about $5 billion in combined loans. And when we do [mesh] our companies together, you see a much better balance of the balance sheet. Over 60% of our portfolio will be in commercial. We have excess capacity, if you will, on the CRE front, room to grow. 29% of the book is in residential mortgage, which we like that percentage quite a bit. And that book will serve us well in this down rate environment as a nice hedge against the lowering that we're all experiencing. And the consumer portfolio is really positioned to grow. Each organization has some strengths on its side that it can share with the other side, and that's back to the 1 and 1 will equal more than 2 when it's all said and done.

On the deposit front, $4.9 billion in deposits. Again, it's -- from our perspective on the Home Savings side, we get a better mix between the categories. On a combined basis, our loan-to-deposit ratio does run close to 1:1, but we do have over $1 billion of excess liquidity at the Federal Home Loan Bank, which is brought about by the residential portfolio that we have. So this means that we really have no near-term limitation on growing our loan portfolio and earning assets going forward. We have some yield and cost of funds information there, you'll see how each works. We should end up with a margin in the 3.60% neighborhood on a combined basis, which will serve us well in the market as well.

With the falling rate environment that we're experiencing, it is worth noting we've got on the Community Bank -- United Community front about $500 million of funding that reprices as soon as the Fed makes a move. So with what we're seeing going forward, it's hard to call it a tailwind, but it's going to be helpful relative to funding costs for the combined group.

Next slide, we'll talk about our business lines. From a fee perspective, $63.8 million is a very strong percentage of total revenue, into this very predictable fee business. Again, the mix gets stronger. First Defiance brings a wonderful insurance group. We've got a great insurance group as well, but I think we've got room for growth in the eastern part of the state. 2 very strong mortgage operations. We also run a little bit more of a retail mortgage shop beyond the footprint, and we see some planned expansion that we had in Michigan and Indiana just putting a faster pace on that as a result of getting together.

Our wealth business gets some critical scale and our private banking group and wealth management teams will benefit from that. The investment portfolio for the combined group assets under management would be about $1 billion, and assets under administration would be under -- would be over $1.5 billion. So again, we're starting to get some critical scale to those businesses, which will be helpful on attracting talent and bringing new products to market.

With that, I'll turn it back to you, Don.

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

Good. Thank you, Gary. I wanted to highlight a few of the key transaction terms and it will be 100% stock deal. United Community will merge into First Defiance. The exchange ratio will be 0.3715 shares of First Defiance stock for every share of United Community. At the close last night -- Friday, that implies a value of $9.78 per UCFC share.

The ownership will be approximately 52.5% for First Defiance and 47.5% for United Community. I think an important point also to note is that we have a defined leadership transition. I will be -- continue to be CEO of the combined corporation for a period of time and expect to transition to the executive chairmanship of the Board in early 2021. At that point, Gary will transition to the CEO and President of the holding company and the bank.

My continued role on the Board and Gary's leadership role in the CEO, we believe, will have consistency in strategy and core values from the top of the house that we will continue to drive through the rest of the organization. And then as we build our leadership teams, there'll be a strong balance between members from UCFC and First Defiance. And we think that's important to keeping, as I mentioned before, the culture of the organization consistent. And we feel we've thought a lot about that, and we'll continue to think a lot about that as we blend the 2 companies going forward.

From a Board structure, we've identified a size of 13 Board members, 7 from First Defiance and 6 from United Community. Our current Chairman through the succession period will be a Chairman of the Board, and Rich Schiraldi, the current Chairman of UCF, will be Vice Chairman of the combined Boards. As noted, the holding company will be headquartered in Defiance, Ohio, and the bank will be headquartered in Youngstown. We feel it's important as we endeavor to put the 2 new companies together and the opportunity for rebranding the combined company exists, so we will be looking over the next several months to determine the new brand name for the new franchise. And we expect the transaction to close in the first quarter of 2020 after all the customary conditions are closed and regulatory and shareholder approvals.

Going to the next slide, talking a little bit about our due diligence process from both the First Defiance side and the UCF side. Thought we had a very robust process we went through to understand both organizations, focusing on credit and the loan portfolios. We reviewed individually 76% of all commercial balances and 100% of commercial rate relationships greater than $2 million of UCFC's portfolio. And conversely, they reviewed approximately 61% of First Defiance's commercial balances. We looked at all regulatory compliance, legal and operational risks with the 2 combined organizations and as well as financial, legal, HR and regulatory. So we continued to really focus on making sure we understood the strengths from a due diligence standpoint and became very comfortable with where we've positioned ourselves today and have a good foundation or baseline, if you will, where the opportunities lie going forward.

So with that, I'll turn it over to Paul.

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

Thank you, Don, and good morning, everyone. I'll summarize the key merger assumptions and pro forma financial impact. In terms of synergies, while we have identified some revenue enhancement opportunities, we have not included those and have only modeled for cost savings. We are projecting pretax cost synergies of approximately $17.4 million, which represents about 10% of the combined organizations' 2020 expense base.

We expect to realize approximately 75% of this in the first 12 months post closing. But for pro forma modeling purposes, we have illustrated this on a fully realized basis against 2020 consensus net income estimates.

Now I'll walk through the tangible book value impact to transaction costs, marks, and CECL. First, we are estimating $30 million of total pretax merger-related costs, and we have fully reflected that dilution at closing for pro forma purposes. Next, given that we expect this merger to close in early 2020, we have estimated the impact of applying CECL to United Community's loan portfolio in connection with this transaction.

First, we have bifurcated the loan portfolio into PCD and non-PCD pools. The credit mark relating to PCD loans, which is estimated to be $4 million, will be recorded as an allowance. The credit mark related to non-PCD loans, which is estimated to be $25 million, will be reflected on a net basis as a reduction of loan balances. In addition, we will also need to separately record an allowance on the non-PCD loan pool via a provision charge. While this allowance is technically day 1 accounting, this effectively results in a double-dip of the non-PCD credit mark. However, because we have to establish a separate allowance on the non-PCD portfolio, that $25 million credit mark will then get accreted back into income over the life of the loans, which is approximately 4.5 years on average.

So in summary for CECL, we will record $29 million of credit marks, which represents 1.30% of loan balances, then a day 1 allowance charge of $25 million, and accrete $25 million back into income over 4.5 years for the non-PCD credit mark. Separate from the credit marks, we have estimated a $14 million pretax interest rate markup to the loan portfolio based on the current interest rate environment. That will be amortized against income over 4.5 years. The core deposit intangibles is estimated at $29 million or 2% of nontime deposits and will be amortized over 10 year's sum-of-the-years digits. All other rate and fair value marks are estimated at $4 million of net equity write-offs to be accreted or amortized over the remaining lives of the relevant assets and liabilities.

Based on those key merger assumptions, I will now summarize the pro forma financial impact. The details of the calculations can be found in the appendix to our slide deck but the highlights are as follows: First Defiance expects to achieve approximately 14% of run rate EPS accretion, which is based on using 2020 net income consensus estimates and reflecting our cost savings on a fully realized basis. That 14% includes the net effect of all marks and the CECL double dip.

The $25 million CECL double-dip adds about 500 basis points of accretion annually, while the amortization of the $14 million interest rate loan mark subtracts about 300 basis points. So net-net, if you look at earnings accretions, without any accretable yield, both up and down, resulting from purchase accounting and CECL, we have earnings accretion of about 12%, which is primarily driven by the cost synergies.

Our tangible book value dilution will be approximately 4% including all estimated transaction costs and the CECL double-dip, and the earnback will be approximately 2 years. In terms of capital, our tangible equity ratio will be approximately 9.5% and our risk-based capital ratio will be approximately 13%, and both will rebuild from there.

With that, I'll turn it back to Gary.

Gary M. Small *- United Community Financial Corp. - President, CEO & Director*

Thank you, Paul. Those numbers really set us up for the next slide, which is giving a view of what we think is the upside and the -- financially with the transaction. This slide is comparing our anticipated 2020 run rate that includes 100% of the economic benefits, so we'll call it our new normalized run rate, and comparing that with the best-in-class in the space, other banks in the $5 billion to $10 billion space top quartile and median.

And what you'll see is the excellent return figures stack up very well. 1.50% ROAA is sort of the floor ROAA for us going forward. We would not be surprised to exceed that. Our return on tangible -- average tangible capital is in excess of 17%. At the end of the day, we are very well capitalized, and about 1.5 years into the deal we'll have a 10% handle back on our TCE versus TA because of that quick earnback.

And really, we have several significantly sized diverse business lines. We're operating in geographies where we have no overriding concentration and it just makes for very durable and predictable performance going forward. Based on last Friday's end-of-day First Defiance stock price, these normalized earnings bring us to only 9.4% as the multiple or -- excuse me, 9.8% as the multiple, and you can see against peers that are performing in a similar fashion somewhere between 12% and 13%. So I deem this as having a great amount of price improvement run rate -- runway on a low-execution-risk transaction.

The next slide is a bit of a track record of each of the organizations versus banking peers. And I think what I would take away from here is that both of the banks really have the ability to move the needle. First Defiance and United Community have excellent performance track records. Each have a history of strong organic growth, being disciplined acquirers and building more durable franchises by developing multiple business lines. We have more ways to win.

An example of that is happening today. We're all under some pressure in the banking world from a net interest margin standpoint. But the residential mortgage business that we have fostered and grown is the perfect hedge in this environment, and the wins we're having there are offsetting some of the pressures on net interest margin. Don's done the same with his team on the fee business side with the insurance growth and so forth. So again, very durable and predictable earnings going forward. You can expect more of the same. We're a disciplined shop, and we're very focused as an organization on shareholder value.

The next slide is probably one of the strongest stories that we've got relative to the combination, which is the strength in -- of our team. We've highlighted on the slide some executive leadership, which is a nice mix of folks from both organizations. And if you were to look at the next 10 or 15 folks in the executive suite, you would see the same. We'll have a good mix. We've got bright folks on both sides of the shop. And as Don mentioned, when I look at this slide and think about the other leadership, probably have 7 people that have worked together at an executive level in prior lives within the same organization. All of that kind of gives us an additional comfort level that we know how each other think, we know what our values are, we know how we prioritize. These are all good qualities to have as you're getting ready to go through an integration.

We do have a great deal of experience on the team, both in integration and banking business know-how. Don mentioned that as organizations we've got experience on acquisitions, albeit they've been a bit on the smaller side relative to the banks we've brought in. But as a leadership team, I think a great many of us have been involved with a number of acquisition projects of all sizes with -- in our past lives with other organizations and that'll serve us well through this endeavor.

On the right side of the sheet, you see that we highlight our market-based leadership team, the area execs. What we really like to drive home here is it's a great team and these are exactly the same faces that the market looks for leadership now. Both internally and externally, these are the folks that are driving the ship, and they're going to be there first day after this deal is done as well. And that continuity should, again, serve us well post close and reduce risk elements in the deal. It's a great team. We're ready to go.

Don, back to you.

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

Thanks, Gary. In summary, a couple of comments I'd like to make. We believe this is a strong position in the Midwest, as Gary outlined the map. We think we're geographically in a great position. It builds on the joint strengths and enhances scale, and I think that's one of the important -- as we improve our size and efficiencies, the scale gives us great opportunities, strengthens our profitability and performance in a lot of ways through the enhanced scale that we add.

The low execution risk, I agree with Gary. We've got a lot of teams. We've already identified an integration team with a lot of experienced folks that are going to hit the ground running, and a lot of planning, working with our technology partners from a systems integration standpoint but also with process and the procedures. That's equally important through the integration planning and then as well as the people side of the business.

A couple of comments on when we looked at the cost saves, we took a balanced approach to analyzing that and feel that they'll be a very balanced impact on the organizations, which in a lot of respects helps to minimize what we think about the cost saves side of the transactions. So it's a very balanced approach.

And then also when we look forward on a capital management standpoint, we're looking to be in a very strong position. We looked at there'll be opportunities for future expansion. In the future, we look to also make considerations for increased dividend, opportunity in the future as well as other equity tools, including buyback of shares. So all those tools will be considered as we go forward, looking at the strong capital position and utilization of that capital within the marketplace.

So with that, concludes our formal presentation. And we'll be now glad to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Damon DelMonte with KBW.

Damon Paul DelMonte - *Keefe, Bruyette, & Woods, Inc., Research Division - SVP and Director*

Congrats on what appears to be a pretty nice transaction between both of the organizations. So my first question, just wondering, the cost save expectation on the combined operations of 10%, could you just talk a little bit about what some of those major drivers are of that, just given that there's limited branch overlap and doesn't sound like there's any intention on closing branches?

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

Sure. I'll start with that and let Paul finish. A lot of that has to do with some of the benefits of some contractual relationships that we both have in place to just take our volumes and include it in other contractual relationships that will lower costs there. Clearly, there's going to be some contraction in other areas within the organization concerning support. But a lot of the drivers will be the efficiencies and how we look at other vendor relationships. We think there's a great opportunity there for lowering our costs now that we have some more scale. But clearly, there'll be a lot of discussions on that. So Paul, any other thoughts on where we...

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

Yes. So Don pretty much nailed it there, a lot of it is being more efficient on a scale basis with the combined organization, leveraging our contracts with core processors and whatnot. And then throughout the rest of the organization, it's a similar kind of concept that we have looked at what the opportunities are there, whether it's in occupancy or other areas to take that same approach and just be more efficient with the dollars that we're spending on that basis.

Damon Paul DelMonte - *Keefe, Bruyette, & Woods, Inc., Research Division - SVP and Director*

Do you feel that you're being conservative with this outlook? And if things fall into place the way you hoped, you could get more cost savings out of this?

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

As I said earlier, I think we are conservative in this approach. But the offset to some of that is the people side where we want to be focused on our culture as well. So we looked at that and feel this is a conservative number, and as things going forward, other triggers might not be in place, we would have maybe more triggers on this side of things. But I think from a consistent cultural viewpoint, we view this as the right number.

Gary M. Small - *United Community Financial Corp. - President, CEO & Director*

It goes back also to some of the folks we have involved driving the integration. From a negotiation standpoint with vendors and so forth where a lot of this money come from, they've had tremendous success. And on a combined basis, we would expect them to have a little bit more to work with, and they deal with the right folks and know the right buttons to push to get the best foot forward. So I think we have what we know we can control, and we have upside expectations beyond that. But let's all be happily surprised when those numbers post.

Damon Paul DelMonte - *Keefe, Bruyette, & Woods, Inc., Research Division - SVP and Director*

Got it. Okay. And I believe you guys said that the combined company margin is probably somewhere in the 3.60% range. First of all, did I hear that correctly? And then second of all, what is your expectation for the interest rate environment going forward as far as potential for future Fed rate cuts?

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

Sure. I'll start with the current expectation and then we can move on to the future. So you did hear correctly. So today, we use consensus estimates that are out there, it's about 3.6% blended, maybe a little bit on the downside for a couple of analysts that have not yet updated for the current rate environment since June 30. But we're comfortable in the 3.5% to 3.6% range there.

And to be clear, so going forward, post-merger, there's going to be a couple of purchase-related items that impact that. First is that non-PCD CECL mark that I mentioned on the call earlier. That has about 9 basis points of positive impact. But on the flip side, the interest rate loan mark there takes away about 5 basis points. So net-net, we're still in that range of 3.5% to 3.6% at least as things stand today. And then to the extent that rates continue to decline, yield curves continue to worsen, we would expect some contraction on that and update that closer to closing.

Gary M. Small - *United Community Financial Corp. - President, CEO & Director*

Damon, in a lowering rate environment, again, it's a struggle for banks to some degree, no better time than to be working on issues relative to reducing your costs and finding other ways to win. And I think from an earnings standpoint, we will be in a better position to power through from an earnings standpoint in '20 and '21 with this activity versus being as reliant on for [Gary's] net interest margin.

Damon Paul DelMonte - *Keefe, Bruyette, & Woods, Inc., Research Division - SVP and Director*

Got it. Okay. Great. And then just 1 final question. Don, did you guys ever continue down the path of converting from your thrift charter to a national bank charter?

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

No, we did not. We're looking at this, we'll convert to a state-chartered institution and then the merger would be with -- UCFC would come back into our state-chartered institution. We'd be a state nonmember bank.

Operator

(Operator Instructions) The next question comes from Christopher Marinac with Janney Montgomery Scott.

Christopher William Marinac - *Janney Montgomery Scott LLC, Research Division - Director of Research and Banks & Thrifts Analyst*

The details that you gave on how the payback and earnings accretion breakout are great, so thank you for that, so this is on '19 and '20. And I just want to go back and just make sure I understood. So if you did not have the loan rate mark or this other fair value mark, you would have a higher dilution but you also would have a higher EPS number that actually is going against that. So in theory, it could be a little longer payback but it's still not going to be that huge of a difference because you have an offset on EPS. So I just want to make sure I have that right.

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

Actually, I think it would be the other way in terms of the dilution. If you factor in that CECL double-dip, which isn't there in today's GAAP, we would have less dilution. In fact, instead of 4%, it would be closer to 1%. And the earnback would be less than 1 year on that as opposed to about 2 years currently.

Christopher William Marinac - *Janney Montgomery Scott LLC, Research Division - Director of Research and Banks & Thrifts Analyst*

Okay. I was just looking at that $11.1 million and $3.5 million and taking those out, which is separate from the split -- which is separate from the CECL double-dip, right?

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

Yes.

Christopher William Marinac - *Janney Montgomery Scott LLC, Research Division - Director of Research and Banks & Thrifts Analyst*

Okay. That's -- yes, I was kind of assuming that CECL had to happen no matter what. It was more about the change. So that leads me to my real question, which was that when you look at the other loan rate mark and the other fair value marks, what are driving that? And what could change between now and closing that makes that number higher or lower? I'm just want to understand the volatility that could happen if rates change either way between now and close.

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

Yes. So on the loan rate mark there, that is based on what has happened essentially since June 30. So for pro forma purpose here, we're using June 30 balances from our public disclosures. But we have considered what has happened to the rate environment yield curve subsequent to that. And based on where we're at today, that's how we got to this $14 million markup on that portfolio. Now that can -- that will continue to change as the rate environment moves from here. So to the extent rates continue to drop, that mark could go up or vice versa.

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

It's about a 4.5-year average life.

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

Yes, 4.5-year average so...

Gary M. Small - *United Community Financial Corp. - President, CEO & Director*

To the question of the tangible capital though, the normal CECL would have done half of this transaction. What's unique about being in the purchase accounting mode is you've got to do -- you've got the double-dip, and I'll let Paul describe that, but it does have an impact that is purchase related of bringing your tangible capital down and it extended the payback period.

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

That's exactly right. So we have the credit mark, which is generally consistent with what we have today in current GAAP, so that would be there regardless. But the key difference here is, in CECL, we now have to also record an allowance on the bulk of the portfolio, the non-PCD pool, which essentially doubles that dilution for that transaction.

Christopher William Marinac - *Janney Montgomery Scott LLC, Research Division - Director of Research and Banks & Thrifts Analyst*

Got you. But that allowance was already factored upfront in closing, so it's not part of the EPS accretion numbers because it's already accounted for upfront.

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

It is in the EPS accretion numbers in terms of the bring-back.

Christopher William Marinac - *Janney Montgomery Scott LLC, Research Division - Director of Research and Banks & Thrifts Analyst*

Right.

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

We've excluded it obviously in terms of just like merger costs, it's a onetime thing. And then you have the run rate impact from there from accreting it. Yes.

Christopher William Marinac - *Janney Montgomery Scott LLC, Research Division - Director of Research and Banks & Thrifts Analyst*

Got it. Okay. Then last question is do you have a sense of how the day 2 accounting is going to work on new loans going forward under CECL? And can we presume that that's not a major number because you obviously have a lower risk profile and limited issues at this juncture?

Paul D. Nungester - *First Defiance Financial Corp. - CFO & Executive VP*

Yes. Yes. We would say that's a fair assumption.

Operator

The next question comes from Daniel Cardenas with Raymond James.

Daniel Edward Cardenas - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Congrats on the transaction. Yes, most of my questions have been answered. Just a couple of cleanup. In terms of buyback, should we assume that you guys are kind of terminating any buyback activity from now until the deal closes?

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

I think that would be a good assumption as we go through this. As I said, we're looking at all the tools, but I would say right now that's our default. Yes.

Gary M. Small - *United Community Financial Corp. - President, CEO & Director*

I think the first capital thing that you might see is going to -- would probably around dividends more so than buybacks even in that near term post close.

Daniel Edward Cardenas - *Raymond James & Associates, Inc., Research Division - Research Analyst*

All right. Sounds good. And then in terms of locking down all the talent that you want to lock down, has that already been taken care of? All the folks under contract, et cetera?

Donald P. Hileman - *First Defiance Financial Corp. - President, CEO & Director*

A lot of that's in place, and we'll continue to assess that and we move forward with that.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Tera Murphy for any closing remarks.

Tera Murphy - *First Defiance Financial Corp. - VP & Marketing Director*

Thank you for joining us today as we discussed our strategic partnership. We appreciate your time and interest in First Defiance Financial Corp. and United Community Financial Corp. Have a great day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.