

CARVER BANCORP INC  
Form 10-Q  
February 09, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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: 1-13007

CARVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

13-3904174

(I.R.S. Employer Identification No.)

75 West 125th Street, New York, New York

(Address of Principal Executive Offices)

10027

(Zip Code)

Registrant's telephone number, including area code: (718) 230-2900

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  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

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Common Stock, par value \$0.01

Outstanding at February 6, 2015

3,696,087

TABLE OF CONTENTS

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Statements of Financial Condition as of December 31, 2014 (unaudited) and March 31, 2014</u>	1
<u>Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2014 and 2013 (unaudited)</u>	2
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended December 31, 2014 and 2013 (unaudited)</u>	3
<u>Consolidated Statement of Changes in Equity for the Nine Months Ended December 31, 2014 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2014 and 2013 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>23</b>
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>40</b>
<b><u>Item 4. Controls and Procedures</u></b>	<b>40</b>
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	<b>42</b>
<b><u>Item 1A. Risk Factors</u></b>	<b>42</b>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>42</b>
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	<b>43</b>
<b><u>Item 4. Mine Safety Disclosures</u></b>	<b>43</b>
<b><u>Item 5. Other Information</u></b>	<b>43</b>
<b><u>Item 6. Exhibits</u></b>	<b>43</b>
<b><u>SIGNATURES</u></b>	<b>44</b>
Exhibit 11	
Exhibit 31.1	
Exhibit 31.2	

Exhibit 32.1

Exhibit 32.2

Exhibit 101

---

## PART I. FINANCIAL INFORMATION

CARVER BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2014	March 31, 2014
	(unaudited)	
\$ in thousands except per share data		
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$55,944	\$115,239
Money market investments	8,967	7,315
Total cash and cash equivalents	64,911	122,554
Restricted cash	6,354	6,354
Investment securities:		
Available-for-sale, at fair value	100,448	89,461
Held-to-maturity, at amortized cost (fair value of \$12,433 and \$8,971 at December 31, 2014 and March 31, 2014, respectively)	12,253	9,029
Total investment securities	112,701	98,490
Loans held-for-sale ("HFS")	2,606	5,011
Loans receivable:		
Real estate mortgage loans	396,957	362,888
Commercial business loans	38,244	26,930
Consumer loans	333	138
Loans, net	435,534	389,956
Allowance for loan losses	(5,880	) (7,233
Total loans receivable, net	429,654	382,723
Premises and equipment, net	7,328	7,830
Federal Home Loan Bank of New York ("FHLB-NY") stock, at cost	2,439	3,101
Accrued interest receivable	2,659	2,557
Other assets	15,721	11,218
Total assets	\$644,373	\$639,838
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Savings	\$93,095	\$98,051
Non-interest bearing checking	51,584	53,232
Interest-bearing checking	30,302	24,271
Money market	148,676	127,655
Certificates of deposit	197,388	206,157
Total deposits	521,045	509,366
Advances from the FHLB-NY and other borrowed money	59,403	70,403
Other liabilities	9,735	8,900
Total liabilities	590,183	588,669
<b>EQUITY</b>		
Preferred stock, (par value \$0.01 per share: 45,118 Series D shares, with a liquidation preference of \$1,000 per share, issued and outstanding)	45,118	45,118
	61	61

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Common stock (par value \$0.01 per share: 10,000,000 shares authorized; 3,698,031 and 3,697,836 shares issued; 3,696,087 and 3,695,892 shares outstanding at December 31, 2014 and March 31, 2014, respectively)			
Additional paid-in capital	56,116	56,114	
Accumulated deficit	(44,079)	) (44,570	)
Treasury stock, at cost (1,944 shares at December 31, 2014 and March 31, 2014)	(417)	) (417	)
Accumulated other comprehensive loss	(1,959)	) (4,768	)
Total equity attributable to Carver Bancorp, Inc.	54,840	51,538	
Non-controlling interest	(650)	) (369	)
Total equity	54,190	51,169	
Total liabilities and equity	\$644,373	\$639,838	
See accompanying notes to consolidated financial statements			

1

---

CARVER BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

\$ in thousands	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
<b>Interest income:</b>				
Loans	\$4,677	\$5,412	\$14,838	\$15,590
Mortgage-backed securities	197	247	595	796
Investment securities	345	313	998	1,009
Money market investments	46	32	181	121
Total interest income	5,265	6,004	16,612	17,516
<b>Interest expense:</b>				
Deposits	741	694	2,182	2,078
Advances and other borrowed money	272	285	815	888
Total interest expense	1,013	979	2,997	2,966
Net interest income	4,252	5,025	13,615	14,550
Recovery of loan losses	(1,151	) (1,052	) (2,645	) (726
Net interest income after provision for loan losses	5,403	6,077	16,260	15,276
<b>Non-interest income:</b>				
Depository fees and charges	887	852	2,707	2,642
Loan fees and service charges	282	133	495	736
Gain on sale of securities	3	21	8	507
Gain (loss) on sale of loans, net	—	98	(2	) 768
Gain (loss) on real estate owned	41	(149	) 44	(280
Lower of cost or market adjustment on loans held-for-sale	1	—	2	(232
Other	194	255	919	775
Total non-interest income	1,408	1,210	4,173	4,916
<b>Non-interest expense:</b>				
Employee compensation and benefits <sup>(1)</sup>	2,997	4,033	8,784	9,047
Net occupancy expense	919	887	2,763	2,634
Equipment, net	229	298	656	682
Data processing	77	244	398	826
Consulting fees	369	119	767	331
Federal deposit insurance premiums	189	313	542	929
Other	2,009	2,357	6,178	5,682
Total non-interest expense <sup>(1)</sup>	6,789	8,251	20,088	20,131
Income (loss) before income taxes <sup>(1)</sup>	22	(964	) 345	61
Income tax expense	62	6	135	94
Consolidated net (loss) income <sup>(1)</sup>	(40	) (970	) 210	(33
Less: Net (loss) income attributable to non-controlling interest	(151	) (147	) (281	) 36
	\$ 111	\$(823	) \$491	\$(69

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Net income (loss) attributable to Carver Bancorp, Inc.

(1)

Earnings (loss) per common share <sup>(1)</sup>:

Basic	\$0.03	\$(0.22	)	\$0.13	\$(0.02	)
Diluted	0.03	(0.22	)	0.13	(0.02	)

See accompanying notes to consolidated financial statements

<sup>1</sup> Results for the three and nine month periods ended December 31, 2013 have been adjusted from previously issued results to include an additional charge of \$716 thousand associated with terminating the Company's pension plan in December 2013. Refer to Note 1 for further detail.

2

---

CARVER BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

\$ in thousands	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net income (loss) attributable to Carver Bancorp, Inc.	\$111	\$(823 )	\$491	\$(69 )
Other comprehensive income (loss), net of tax:				
Change in unrealized loss of securities available-for-sale	1,103	(1,546 )	2,817	(6,979 )
Change in pension obligations	—	(647 )	—	(647 )
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax	3	21	8	507
Reclassification adjustment for termination of pension plan, net of tax	—	(1,148 )	—	(1,148 )
Total other comprehensive income (loss), net of tax	1,100	(1,066 )	2,809	(6,985 )
Total comprehensive income (loss), net of tax attributable to Carver Bancorp, Inc.	\$1,211	\$(1,889 )	\$3,300	\$(7,054 )
See accompanying notes to consolidated financial statements				



CARVER BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended December 31, 2014

(Unaudited)

(\$ in thousands)	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated deficit	Non-controlling interest	Total Equity
Balance — March 31, 2014	\$45,118	\$61	\$56,114	\$(417 )	\$ (4,768 )	\$ (44,570 )	\$ (369 )	\$51,169
Net income attributable to Carver Bancorp, Inc.	—	—	—	—	—	491	—	491
Other comprehensive income (loss), net of taxes	—	—	—	—	2,809	—	—	2,809
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(281 )	(281 )
Stock based compensation expense	—	—	2	—	—	—	—	2
Balance — December 31, 2014	\$45,118	\$61	\$56,116	\$(417 )	\$ (1,959 )	\$ (44,079 )	\$ (650 )	\$54,190

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended December	
	31,	
(\$ in thousands)	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) before attribution to noncontrolling interests	\$210	\$(33 )
Net (loss) income attributable to noncontrolling interests, net of taxes	(281	) 36
Net income (loss) attributable to Carver Bancorp, Inc.	491	(69 )
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Recovery of loan losses	(2,645	) (726 )
Pension plan termination	—	1,148
Stock based compensation expense	2	1
Depreciation and amortization expense	779	819
(Gain) loss on real estate owned	(44	) 280
Gain on sale of securities, net	(8	) (507 )
Loss (gain) on sale of loans, net	2	(768 )
Amortization and accretion of loan premiums and discounts and deferred charges	(1,042	) (1,266 )
Amortization and accretion of premiums and discounts — securities	141	(359 )
Market adjustment on held-for-sale loans	(2	) 232
Proceeds from sale of loans held-for-sale	—	14,673
Assets repurchased from third parties	(174	) (1,932 )
Increase in accrued interest receivable	(102	) (373 )
Decrease in other assets	650	1,649
Increase (decrease) in other liabilities	553	(988 )
Net cash (used in) provided by operating activities	(1,399	) 11,814
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments: Available-for-sale	(17,534	) (30,180 )
Purchases of securities: Held-to-maturity	(3,667	) —
Proceeds from principal payments, maturities, calls and sales of investments: Available-for-sale	9,057	49,899
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	571	2,072
Originations of loans held-for-investment	(41,558	) (50,124 )
Loans purchased from third parties	(49,966	) (54,459 )
Principal collections on loans	45,561	72,299
Proceeds on sale of loans	—	242
Decrease in restricted cash	—	4,110
Redemption (purchase) of FHLB-NY stock	662	(723 )
Purchase of premises and equipment	(278	) (232 )
Proceeds from sale of real estate owned	229	1,666
Net cash used in investing activities	(56,923	) (5,430 )
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	11,679	(11,733 )
Net (decrease) increase in FHLB-NY advances and other borrowings	(11,000	) 19,000
Net cash provided by financing activities	679	7,267

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Net (decrease) increase in cash and cash equivalents	(57,643	) 13,651
Cash and cash equivalents at beginning of period	122,554	104,646
Cash and cash equivalents at end of period	\$64,911	\$118,297
Supplemental cash flow information:		
Noncash financing and investing activities		
Change in unrealized loss on valuation of available-for-sale investments, net	\$2,810	\$(7,479 )
Transfers from loans held-for-investment to loans held-for-sale	\$—	\$9,001
Transfers to real estate owned	\$2,434	\$1,296
Cash paid for:		
Interest	\$2,637	\$2,669
Income taxes	\$124	\$130
See accompanying notes to consolidated financial statements		

CARVER BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Nature of operations

Carver Bancorp, Inc. (on a stand-alone basis, the “Company” or “Registrant”), was incorporated in May 1996 and its principal wholly owned subsidiary is Carver Federal Savings Bank (the “Bank” or “Carver Federal”). Carver Federal's wholly owned subsidiaries are CFSB Realty Corp., Carver Community Development Corporation (“CCDC”) and CFSB Credit Corp., which is currently inactive. The Bank has a majority-owned interest in Carver Asset Corporation, a real estate investment trust formed in February 2004.

“Carver,” the “Company,” “we,” “us” or “our” refers to the Company along with its consolidated subsidiaries. The Bank was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally-chartered mutual savings and loan association. The Bank converted to a federal savings bank in 1986. On October 24, 1994, the Bank converted from a mutual holding company structure to stock form and issued 2,314,375 shares of its common stock, par value 0.01 per share. On October 17, 1996, the Bank completed its reorganization into a holding company structure (the “Reorganization”) and became a wholly owned subsidiary of the Company.

In September 2003, the Company formed Carver Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures of the Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidations,” Carver Statutory Trust I is unconsolidated for financial reporting purposes.

Carver Federal's principal business consists of attracting deposit accounts through its branches and investing those funds in mortgage loans and other investments permitted by federal savings banks. The Bank has ten branches located throughout the City of New York that primarily serve the communities in which they operate.

On February 7, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (the “Bank Order” and the “Company Order,” respectively, and together the “Orders”) with the Office of Thrift Supervision (“OTS”). The OTS issued these Orders based upon its findings that the Company was operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it was operating with an excessive level of adversely classified assets, and earnings inadequate to augment its capital. Effective July 21, 2011, supervisory authority for the Company Order passed to the Board of Governors of the Federal Reserve System and supervisory authority for the Bank Order passed to the Office of the Comptroller of the Currency (“OCC”). No assurances can be given that the Bank and the Company will continue to comply with all provisions of the Orders. Failure to comply with these provisions could result in further regulatory actions to be taken by the regulators.

On June 29, 2011, the Company raised \$55 million of capital by issuing 55,000 shares of mandatorily convertible non-voting participating preferred stock, Series C (the “Series C preferred stock”). The issuance resulted in a \$51.4 million increase in equity after considering the effect of various expenses associated with the capital raise. The capital raise enabled the Company to make a capital injection of \$37 million in the Bank on June 30, 2011. In December 2011, another \$7 million capital injection was made in the Bank. The remainder of the net capital raised is retained by the Company for future strategic purposes or to downstream into the Bank, if necessary. No assurances can be given that the amount of capital raised is sufficient to absorb the expected losses in the Bank's loan portfolio. Should the losses be greater than expected, additional capital may be necessary in the future.

On October 25, 2011, Carver's stockholders voted to approve a 1-for-15 reverse stock split. A separate vote of approval was given to convert the Series C preferred stock to non-cumulative non-voting participating preferred stock, Series D (“the Series D preferred stock”) and to common stock and to exchange the U.S. Treasury's (“Treasury”)

Community Development Capital Initiative (“CDCI”) Series B preferred stock for common stock.

On October 27, 2011, the 1-for-15 reverse stock split was effected, which reduced the number of outstanding shares of common stock from 2,492,415 to 166,161.

On October 28, 2011, the Treasury exchanged the CDCI Series B preferred stock for 2,321,286 shares of Carver common stock and the Series C preferred stock converted into 1,208,039 shares of Carver common stock and 45,118 shares of Series D preferred stock.

On November 3, 2014, the OCC notified the Bank that the OCC had determined that the Bank had satisfied all of the requirements of the Bank Order and directed that the Bank Order be terminated. In addition, the OCC notified the Bank that the OCC had determined that the Bank was no longer in "troubled condition" and was relieved of all prior conditions imposed on the Bank by the OTS as a result of its troubled condition designation. The Company Order has not been terminated.

#### Revisions

Carver Federal had a non-contributory defined benefit pension plan covering all who were participants prior to curtailment of the plan during the fiscal year ended March 31, 2001. The benefits were based on each employee's term of service through the date of curtailment. Carver Federal's policy was to fund the plan with contributions which equal the maximum amount deductible for federal income tax purposes. The plan was terminated in December 2013 and the Company initially recorded a pension cost of \$432 thousand in the third quarter of fiscal 2014. Subsequently, the Company determined that there was an error in the pension cost initially recorded. As a result, the Company recorded an additional charge of \$716 thousand and adjusted its third quarter results reported in the Form 10-K for the year ended March 31, 2014. The Company also reclassified \$716 thousand from accumulated deficit to accumulated other comprehensive loss in its fiscal year 2014 statement of changes in equity to correct the Company's accounting for benefit plans upon adoption and implementation of ASC 715-30 in the March 31, 2014 Form 10-K. Management determined that financial statements were not materially misstated as a result of these adjustments and, as such, concluded it was appropriate to adjust for these items in the March 31, 2014 Form 10-K rather than restating the December 31, 2013 Form 10-Q. These adjustments are reflected in the results disclosed in this Form 10-Q.

#### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of consolidated financial statement presentation

The consolidated financial statements include the accounts of the Company, the Bank and the Bank's wholly owned or majority-owned subsidiaries, Carver Asset Corporation, CFSB Realty Corp., CCDC, and CFSB Credit Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended December 31, 2014 are not necessarily indicative of the results that may be expected for the year ended March 31, 2015. The consolidated balance sheet at December 31, 2014 has been derived from the unaudited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended March 31, 2014. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, valuation of real estate owned, realization of deferred tax assets, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future writedowns of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

In addition, the OCC, Carver Federal's regulator, as an integral part of its examination process, periodically reviews Carver Federal's allowance for loan losses and, if applicable, real estate owned valuations. The OCC may require Carver Federal to recognize additions to the allowance for loan losses or additional writedowns of real estate owned based on their judgments about information available to them at the time of their examination.

In addition, no assurances can be given that the Company will continue to comply with all provisions of the Order. Failure to comply with these provisions could result in further regulatory actions to be taken by the regulators.

## NOTE 3. EARNINGS PER COMMON SHARE

The following table reconciles the earnings available to common shareholders (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted earnings per share for the following periods:

\$ in thousands except per share data	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Earnings per common share				
Net income (loss) available to common shareholders of Carver Bancorp, Inc.	\$ 111	\$(823 )	491	(69 )
Weighted average common shares outstanding	3,696,420	3,696,225	3,696,338	3,696,123
Basic earnings (loss) per common share	\$0.03	\$(0.22 )	\$0.13	\$(0.02 )
Diluted earnings (loss) per common share	0.03	(0.22 )	0.13	(0.02 )

## NOTE 4. COMMON STOCK DIVIDENDS

As previously disclosed in a Form 8-K filed with the SEC on October 29, 2010, the Company's Board of Directors announced that, based on highly uncertain economic conditions and the desire to preserve capital, Carver suspended payment of the quarterly cash dividend on its common stock. In accordance with the Order, the Company is also prohibited from paying any dividends without prior regulatory approval, and, as such, suspended the regularly quarterly cash dividend payments on the Company's CDCI Series B preferred stock to the Treasury. On October 18, 2011, Carver received approval from the Federal Reserve Bank to pay all outstanding dividend payments (which included \$192 thousand accrued during the six month period ended September 30, 2011) on the Company's Series B preferred stock issued under the TARP CPP. There are no assurances that the payments of dividends on the common stock will resume.

Debenture interest payments which had previously been deferred in March 2011 and June 2011 on the Carver Statutory Trust I trust preferred securities ("TruPS") were brought current in September 2011. The Company is prohibited from making future payments without prior approval. The expense continues to be accrued and the payments remain on deferral status.

On October 28, 2011, the Treasury exchanged the CDCI Series B preferred stock for 2,321,286 shares of Carver common stock and the Series C preferred stock converted into 1,208,039 shares of Carver common stock and 45,118 shares of Series D preferred stock. Series C stock was previously reported as mezzanine equity, and upon conversion to common and Series D preferred stock is now reported as equity attributable to Carver Bancorp, Inc. The holders of the Series D Preferred Stock are entitled to receive dividends, on an as-converted basis, simultaneously to the payment of any dividends on the common stock.

## NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth changes in each component of accumulated other comprehensive loss, net of tax for the nine months ended December 31, 2014 and 2013:

Nine months ended December 31, 2014	At	Other		At
		Comprehensive		
\$ in thousands	March 31, 2014	Income, net of tax		December 31, 2014
Net unrealized loss on securities available-for-sale	\$(4,768	) \$2,809		\$(1,959 )
Accumulated other comprehensive loss, net of tax	\$(4,768	) \$2,809		\$(1,959 )



Edgar Filing: CARVER BANCORP INC - Form 10-Q

Nine months ended December 31, 2013	At	Pension Plan	Other	At
\$ in thousands	March 31, 2013	Adjustment	Comprehensive Income, net of tax	December 31, 2013
Net unrealized loss on securities available-for-sale	\$1,064	\$—	\$(7,486	) \$(6,422 )
Net unrealized loss on pension liability	(501	) (716	) 1,217	—
Accumulated other comprehensive loss, net of tax	\$563	\$(716	) \$(6,269	) \$(6,422 )

8

---

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table sets forth information about amounts reclassified from accumulated other comprehensive loss to the consolidated statement of operations and the affected line item in the statement where net income is presented.

\$ in thousands	For the Three Months		For the Nine Months		Affected Line Item in the Consolidated Statement of Operations
	Ended December 31, 2014	2013	Ended December 31, 2014	2013	
Reclassification adjustment for sales of available-for-sale securities, net of tax	3	21	8	507	Gain on sale of securities
Reclassification adjustment for termination of pension plan, net of tax	—	(1,148 )	—	(1,148 )	Employee compensation and benefits
Total reclassifications for the period	\$3	\$(1,127 )	\$8	\$(641 )	

NOTE 6. INVESTMENT SECURITIES

The Bank utilizes mortgage-backed and other investment securities in its asset/liability management strategy. In making investment decisions, the Bank considers, among other things, its yield and interest rate objectives, its interest rate and credit risk position, and its liquidity and cash flow.

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC Subtopic 320-10-25 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At December 31, 2014, \$100.4 million, or 89.1%, of the Bank's mortgage-backed and other investment securities were classified as available-for-sale, and the remaining \$12.3 million, or 10.9%, were classified as held-to-maturity. The Bank had no securities classified as trading at December 31, 2014 and March 31, 2014.

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at December 31, 2014:

\$ in thousands	Amortized Cost	Gross Unrealized		Fair-Value
		Gains	Losses	
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	\$5,637	\$—	\$(102 )	\$5,535
Federal Home Loan Mortgage Corporation	11,244	—	(220 )	11,024
Federal National Mortgage Association	11,226	9	(152 )	11,083
Other	47	—	—	47
Total mortgage-backed securities	28,154	9	(474 )	27,689
U.S. Government Agency Securities	57,743	30	(1,238 )	56,535
Other investments	16,513	—	(289 )	16,224
Total available-for-sale	102,410	39	(2,001 )	100,448
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	3,234	215	—	3,449
Federal National Mortgage Association	9,019	1	(36 )	8,984
Total held-to-maturity mortgage-backed securities	12,253	216	(36 )	12,433
Total securities	\$114,663	\$255	\$(2,037 )	\$112,881

\* The carrying amount and amortized cost are the same for all held-to-maturity securities, as no OTTI has been recorded.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2014:

\$ in thousands	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	\$5,972	\$—	\$(307)	) \$5,665
Federal Home Loan Mortgage Corporation	12,160	—	(564)	) 11,596
Federal National Mortgage Association	10,897	—	(466)	) 10,431
Other	49	—	—	49
Total mortgage-backed securities	29,078	—	(1,337)	) 27,741
U.S. Government Agency Securities	55,155	—	(2,966)	) 52,189
Other investments	10,000	—	(469)	) 9,531
Total available-for-sale	94,233	—	(4,772)	) 89,461
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	3,743	225	—	3,968
Federal National Mortgage Association	5,079	—	(283)	) 4,796
Total held-to-maturity mortgage-backed securities	8,822	225	(283)	) 8,764
Other	207	—	—	207
Total held-to-maturity	9,029	225	(283)	) 8,971
Total securities	\$103,262	\$225	\$(5,055)	) \$98,432

\* The carrying amount and amortized cost are the same for all held-to-maturity securities, as no OTTI has been recorded.

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at December 31, 2014 for less than 12 months and 12 months or longer:

\$ in thousands	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	\$(7)	) \$2,813	\$(467)	) \$22,974	\$(474)	) \$25,787
U.S. Government Agency Securities	(28)	) 4,930	(1,210)	) 42,599	(1,238)	) 47,529
Other investments <sup>(1)</sup>	—	—	(289)	) 9,711	(289)	) 9,711
Total available-for-sale securities	(35)	) 7,743	(1,966)	) 75,284	(2,001)	) 83,027
Held-to-Maturity:						
Mortgage-backed securities	—	—	(36)	) 4,971	(36)	) 4,971
Total held-to-maturity securities	—	—	(36)	) 4,971	(36)	) 4,971
Total securities	\$(35)	) \$7,743	\$(2,002)	) \$80,255	\$(2,037)	) \$87,998

<sup>(1)</sup> CRA fund comprised of over 95% agency securities.



Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at March 31, 2014 for less than 12 months and 12 months or longer:

\$ in thousands	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>Available-for-Sale:</b>						
Mortgage-backed securities	\$(322)	\$7,569	\$(1,015)	\$20,123	\$(1,337)	\$27,692
U.S. Government Agency Securities	(1,646)	34,074	(1,320)	18,115	(2,966)	52,189
Other investments <sup>(1)</sup>	(469)	9,531	—	—	(469)	9,531
Total available-for-sale securities	(2,437)	51,174	(2,335)	38,238	(4,772)	89,412
<b>Held-to-Maturity:</b>						
Mortgage-backed securities	(283)	4,796	—	—	(283)	4,796
Total held-to-maturity securities	(283)	4,796	—	—	(283)	4,796
Total securities	\$(2,720)	\$55,970	\$(2,335)	\$38,238	\$(5,055)	\$94,208

<sup>(1)</sup> CRA fund comprised of over 95% agency securities.

A total of 31 securities had an unrealized loss at December 31, 2014 compared to 35 at March 31, 2014. The majority of the securities in an unrealized loss position were U.S. Government Agency securities and mortgage-backed securities, representing 68.9% and 31.1%, respectively, of total available-for-sale securities in an unrealized loss position at December 31, 2014. There were fifteen mortgage-backed securities and eight U.S. Government Agency securities in an unrealized loss position that had an unrealized loss for more than 12 months at December 31, 2014. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, the risk of credit loss is minimal. Management believes that these unrealized losses are a direct result of the current rate environment and has the ability and intent to hold the securities until maturity or the valuation recovers.

The amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Company will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). At December 31, 2014, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

The following is a summary of the carrying value (amortized cost) and fair value of securities at December 31, 2014, by remaining period to contractual maturity (ignoring earlier call dates, if any). Actual maturities may differ from contractual maturities because certain security issuers have the right to call or prepay their obligations. The table below does not consider the effects of possible prepayments or unscheduled repayments.

\$ in thousands	Amortized Cost	Fair Value	Weighted Average Yield	
<b>Available-for-Sale:</b>				
Less than one year	\$5,533	\$5,533	0.25	%
One through five years	16,480	16,404	1.34	%
Five through ten years	24,349	23,616	1.83	%
After ten years	56,048	54,895	1.74	%
Total	\$102,410	\$100,448	1.61	%
<b>Held-to-maturity:</b>				
Five through ten years	\$5,007	\$4,971	2.38	%
After ten years	7,246	7,462	2.89	%

Total	\$12,253	\$12,433	2.68	%
-------	----------	----------	------	---

NOTE 7. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The loans receivable portfolio is segmented into one-to-four family, multifamily mortgage, commercial real estate, construction, business (including Small Business Administration loans), and consumer loans.

11

---

The allowance for loan and lease loss ("ALLL") reflects management's judgment in the evaluation of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to calculate the ALLL each quarter. To determine the total ALLL, management estimates the reserves needed for each segment of the loan portfolio, including loans analyzed individually and loans analyzed on a pooled basis.

From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts or release balances from the ALLL. The ALLL is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends. Individual loan risk ratings are evaluated based on the specific facts related to that loan. Additions to the ALLL are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the ALLL, while recoveries of previously charged off amounts are credited to the ALLL.

The following is a summary of loans receivable, net of allowance for loan losses, and loans held-for-sale at December 31, 2014 and March 31, 2014:

\$ in thousands	December 31, 2014		March 31, 2014			
	Amount	Percent	Amount	Percent		
Gross loans receivable:						
One-to-four family	\$ 125,994	29	% \$ 111,220	29	%	
Multifamily	63,576	15	% 47,399	12	%	
Commercial real estate	200,892	46	% 198,808	51	%	
Construction	5,104	1	% 5,100	1	%	
Business	38,371	9	% 27,149	7	%	
Consumer <sup>(1)</sup>	333	—	% 138	—	%	
Total loans receivable	\$434,270	100	% \$389,814	100	%	
Add:						
Premium on loans	1,400		957			
Less:						
Deferred fees and loan discounts, net	(136 )		(815 )			
Allowance for loan losses	(5,880 )		(7,233 )			
Total loans receivable, net	\$429,654		\$382,723			

<sup>(1)</sup> Includes personal loans

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the three and nine month periods ended December 31, 2014 and 2013, and the fiscal year ended March 31, 2014.

Three months ended December 31, 2014

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	\$3,301	\$372	\$ 1,154	\$214	\$ 1,535	\$21	\$6,597
Charge-offs	112	—	—	—	—	—	112
Recoveries	—	—	2	—	540	4	546
Provision for (Recovery of) Loan Losses	225	(19 )	(291 )	(53 )	(1,004 )	(9 )	(1,151 )
Ending Balance	\$3,414	\$353	\$865	\$161	\$1,071	\$16	\$5,880





Edgar Filing: CARVER BANCORP INC - Form 10-Q

Nine months ended December 31, 2014

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	\$3,377	\$308	\$1,835	\$—	\$1,705	\$8	\$7,233
Charge-offs	195	—	—	—	—	—	195
Recoveries	379	82	256	—	763	7	1,487
Provision for (Recovery of) Loan Losses	(147 )	(37 )	(1,226 )	161	(1,397 )	1	(2,645 )
Ending Balance	\$3,414	\$353	\$865	\$161	\$1,071	\$16	\$5,880

Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	2,515	172	832	161	828	15	4,523
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	899	181	32	—	244	1	1,357

Loan Receivables Ending Balance	\$127,417	\$64,138	\$200,334	\$5,074	\$38,244	\$327	\$435,534
Ending Balance: collectively evaluated for impairment	120,367	62,648	196,229	5,074	33,638	320	418,276
Ending Balance: individually evaluated for impairment	7,050	1,490	4,105	—	4,606	7	17,258

Fiscal year ended March 31, 2014

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	\$3,496	\$408	\$3,298	\$—	\$3,759	\$28	\$10,989
Charge-offs	2,887	98	574	—	966	15	4,540
Recoveries	534	31	—	149	486	10	1,210
Provision for (Recovery of) Loan Losses	2,234	(33 )	(889 )	(149 )	(1,574 )	(15 )	(426 )
Ending Balance	\$3,377	\$308	\$1,835	\$—	\$1,705	\$8	\$7,233

Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	2,857	216	1,580	—	941	8	5,602
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	520	92	255	—	764	—	1,631

Loan Receivables Ending Balance:	\$112,191	\$47,525	\$198,101	\$5,070	\$26,931	\$138	389,956
Ending Balance: collectively evaluated for impairment	105,719	45,285	189,317	5,070	21,926	137	367,454
Ending Balance: individually evaluated for impairment	6,472	2,240	8,784	—	5,005	1	22,502

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Three months ended December 31, 2013

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 4,223	\$ 394	\$ 2,888	\$ 210	\$ 1,602	\$ 29	\$ 53	\$ 9,399
Charge-offs	—	98	58	—	179	—	—	335
Recoveries	13	7	—	149	230	4	—	403
Provision for (Recovery of) Loan Losses	(169 )	78	(610 )	(359 )	112	(51 )	(53 )	(1,052 )
Ending Balance	\$ 4,067	\$ 381	\$ 2,220	\$ —	\$ 1,765	\$ (18 )	\$ —	\$ 8,415

13

---

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Nine months ended December 31, 2013

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	\$3,496	\$408	\$3,298	\$—	\$3,759	\$28	\$10,989
Charge-offs	1,619	98	570	—	572	15	2,874
Recoveries	515	23	—	149	326	13	1,026
Provision for (Recovery of) Loan Losses	1,675	48	(508)	(149)	(1,748)	(44)	(726)
Ending Balance	\$4,067	\$381	\$2,220	\$—	\$1,765	\$(18)	\$8,415
Allowance for Loan Losses							
Ending Balance: collectively evaluated for impairment	3,636	329	1,971	—	1,212	16	7,164
Ending Balance: individually evaluated for impairment	431	52	249	—	519	—	1,251
Loan Receivables Ending Balance:							
Ending Balance: collectively evaluated for impairment	\$118,187	\$47,544	\$194,019	\$5,068	\$28,083	\$262	\$393,163
Ending Balance: individually evaluated for impairment	110,268	46,181	181,435	5,068	23,022	261	366,235
Ending Balance: individually evaluated for impairment	7,919	1,363	12,584	—	5,061	1	26,928

The following is a summary of nonaccrual loans at December 31, 2014 and March 31, 2014.

\$ in thousands	December 31, 2014	March 31, 2014
Gross loans receivable:		
One-to-four family	\$3,089	\$2,301
Multifamily	1,053	2,240
Commercial real estate	2,850	7,024
Business	1,550	993
Consumer	7	1
Total nonaccrual loans	\$8,549	\$12,559

Nonaccrual loans decreased \$4.0 million, or 31.9%, to \$8.5 million at December 31, 2014 from \$12.6 million at March 31, 2014.

Non-performing loans at December 31, 2014, were comprised of \$4.8 million of loans 90 days or more past due and non-accruing, and included \$3.7 million of loans classified as a troubled debt restructuring which had either not consistently performed in accordance with their modified terms or were not performing in accordance with their modified terms for at least six months.

Non-performing loans at March 31, 2014, were comprised of \$9.0 million of loans 90 days or more past due and non-accruing, and included \$3.0 million of loans classified as a troubled debt restructuring which had either not consistently performed in accordance with their modified terms or were not performing in accordance with their modified terms for at least six months.

At December 31, 2014, other non-performing assets totaled \$6.5 million which consisted of other real estate owned and held-for-sale loans. At December 31, 2014, other real estate owned valued at \$3.9 million comprised of nine foreclosed properties, compared to \$1.4 million comprised of eight properties at March 31, 2014. At December 31, 2014, held-for-sale loans totaled \$2.6 million, compared to \$5.0 million at March 31, 2014.

The Bank utilizes an internal loan classification system as a means of reporting problem loans within its loan categories. Loans may be classified as "Pass," "Special Mention," "Substandard," "Doubtful," and "Loss." Loans rated Pass have demonstrated satisfactory asset quality, earning history, liquidity, and other adequate margins of creditor protection. They represent a moderate

credit risk and some degree of financial stability. Loans are considered collectible in full, but perhaps require greater than average amount of loan officer attention. Borrowers are capable of absorbing normal setbacks without failure. Loans rated Special Mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Loans rated Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans rated Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged off immediately to the allowance for loan losses.

One-to-four family residential loans and consumer and other loans are rated non-performing if they are delinquent in payments ninety or more days, a troubled debt restructuring with less than six months contractual performance or past maturity. All other one-to-four family residential loans and consumer and other loans are performing loans.

As of December 31, 2014, the risk category by class of loans is as follows:

\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
<b>Credit Risk Profile by Internally Assigned Grade:</b>				
Pass	\$62,648	\$193,905	\$5,074	\$31,908
Special Mention	—	2,519	—	889
Substandard	1,490	3,910	—	5,447
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$64,138	\$200,334	\$5,074	\$38,244
			One-to-four family	Consumer
<b>Credit Risk Profile Based on Payment Activity:</b>				
Performing			\$123,280	\$313
Non-Performing			4,137	14
Total			\$127,417	\$327

As of March 31, 2014, and based on the most recent analysis performed, the risk category by class of loans is as follows:

\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
<b>Credit Risk Profile by Internally Assigned Grade:</b>				
Pass	\$46,028	\$184,850	\$5,070	\$20,638
Special Mention	—	7,129	—	1,295
Substandard	1,497	6,122	—	4,998
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$47,525	\$198,101	\$5,070	\$26,931
			One-to-four family	Consumer
<b>Credit Risk Profile Based on Payment Activity:</b>				

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Performing	\$109,890	\$137
Non-Performing	2,301	1
Total	\$112,191	\$138

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table presents an aging analysis of the recorded investment of past due financing receivable as of December 31, 2014 and March 31, 2014.

December 31, 2014

\$ in thousands	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Financing Receivables
One-to-four family	\$1,126	\$—	\$3,011	\$4,137	\$123,280	\$127,417
Multifamily	—	437	1,053	1,490	62,648	64,138
Commercial real estate	3,581	—	1,115	4,696	195,638	200,334
Construction	—	—	—	—	5,074	5,074
Business	—	—	741	741	37,503	38,244
Consumer	—	7	7	14	313	327
Total	\$4,707	\$444	\$5,927	\$11,078	\$424,456	\$435,534

March 31, 2014

\$ in thousands	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables
One-to-four family	\$244	\$888	\$1,863	\$2,995	\$109,196	112,191
Multifamily	444	—	2,240	2,684	44,841	47,525
Commercial real estate	3,133	292	3,891	7,316	190,785	198,101
Construction	—	—	—	—	5,070	5,070
Business	—	131	993	1,124	25,807	26,931
Consumer	2	2	1	5	133	138
Total	\$3,823	\$1,313	\$8,988	\$14,124	\$375,832	\$389,956

The following table presents information on impaired loans with the associated allowance amount, if applicable, at December 31, 2014 and March 31, 2014.

\$ in thousands	At December 31, 2014			At March 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:						
One-to-four family	\$753	\$1,106	\$—	\$639	\$893	—
Multifamily	156	156	—	—	—	—
Commercial real estate	2,937	3,109	—	3,972	4,147	—
Business	952	952	—	341	402	—
Consumer	—	—	—	1	1	—
With an allowance recorded:						
One-to-four family	6,297	6,425	899	5,833	5,958	520
Multifamily	1,334	1,432	181	2,240	2,240	92
Commercial real estate	1,168	1,168	32	4,812	5,023	255
Business	3,654	3,737	244	4,664	4,664	764
Consumer and other	7	7	1	—	—	—
Total	\$17,258	\$18,092	\$1,357	\$22,502	\$23,328	\$1,631





Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following tables presents information on average balances on impaired loans and the interest income recognized on a cash basis for the three and nine month period ended December 31, 2014 and 2013. All impaired loans during the period were carried on cash-basis nonaccrual

\$ in thousands	For the Three Months Ended December 31,				For the Nine Months Ended December 31,			
	2014		2013		2014		2013	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
With no specific allowance recorded:								
One-to-four family	\$736	\$2	\$1,793	\$4	\$731	\$11	\$1,889	\$5
Multifamily	157	—	1,206	5	137	—	519	6
Commercial real estate	2,945	22	9,086	65	2,660	136	9,104	127
Construction	—	—	38	—	—	—	615	—
Business	1,014	11	1,953	40	1,032	89	1,684	47
Consumer and other	—	—	1	—	—	—	1	—
With an allowance recorded:								
One-to-four family	6,299	\$14	5,210	58	6,106	101	5,464	98
Multifamily	1,334	2	162	—	1,336	17	162	—
Commercial real estate	1,171	(15)	3,041	32	684	24	5,138	37
Business	3,678	28	2,870	78	3,466	106	—	—
Consumer and other	7	—	—	—	7	—	3,728	114
Total	\$17,341	\$64	\$25,360	\$282	\$16,159	\$484	\$28,304	\$434

In certain circumstances, the Bank will modify a loan as part of a troubled debt restructure ("TDR") under ASC Subtopic 310-40 and the related allowance under ASC Subtopic 310-10-35. Situations around these modifications may include extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, reduction in the face amount of the debt or reduction of past accrued interest. Loans modified in TDRs are placed on nonaccrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months.

The following table presents an analysis of those loan modifications that were classified as TDRs during the three and nine month period ended December 31, 2014.

\$ in thousands	Modifications to loans during the three month period ended December 31, 2014						Modifications to loans during the nine month period ended December 31, 2014					
	Number of loans	Pre-modification outstanding investment	Post-modification recorded rate	Pre-modification outstanding investment	Post-modification recorded rate	Number of loans	Pre-modification outstanding investment	Post-modification recorded rate	Pre-modification outstanding investment	Post-modification recorded rate		
One-to-four family	1	\$ 43	12.00 %	\$ 43	12.00 %	1	\$ 43	12.00 %	\$ 43	12.00 %		
Commercial real estate	—	—	— %	—	— %	1	873	6.60 %	856	6.60 %		
Business	1	50	10.50 %	50	10.50 %	1	50	10.50 %	50	10.50 %		

Total	2	\$ 93	\$ 93	3	\$ 966	\$ 949
-------	---	-------	-------	---	--------	--------

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table presents an analysis of those loan modifications that were classified as TDRs during the three and nine month period ended December 31, 2013:

\$ in thousands	Modifications to loans during the three month period ended December 31, 2013						Modifications to loans during the nine month period ended December 31, 2013					
	Number of loans	Pre-modification outstanding recorded investment	Post modification recorded investment	Pre-Modification rate	Post-Modification rate		Number of loans	Pre-modification outstanding recorded investment	Post-modification recorded investment	Pre-Modification rate	Post-Modification rate	
One-to-four family Business	1	\$ 429	\$ 428	6.50 %	4.50 %		2	\$ 913	\$ 975	7.03 %	5.06 %	
Business	—	—	—	— %	— %		1	919	719	6.00 %	6.00 %	
Total	1	\$ 429	\$ 428				3	\$ 1,832	\$ 1,694			

In an effort to proactively resolve delinquent loans, Carver has selectively extended to certain borrowers concessions such as extensions, rate reductions or forbearance agreements. For the three month period ended December 31, 2014, one loan of \$43 thousand was modified and one loan of \$50 thousand was extended. The nine month period ended December 31, 2014 also included one loan of \$856 thousand that was extended. For the three month period ended December 31, 2013, one loan of \$428 thousand was modified with an interest rate concession of 2.00%. For the nine month period ended December 31, 2013, two loans totaling \$975 thousand were modified with interest rate concessions of 2.00%, and one loan of \$719 thousand was extended.

For the periods ended December 31, 2014 and 2013, there were no modified loans that subsequently defaulted within the last 12 months.

At December 31, 2014, there were 12 loans in the TDR portfolio totaling \$4.7 million that were on accrual status as the Company has determined that future collection of the principal and interest is reasonably assured. These have generally performed according to restructured terms for a period of at least six months. At March 31, 2014, there were 14 loans in the performing TDR portfolio totaling \$6.3 million.

At December 31, 2014 and 2013, there were no loans to officers or directors of the Company.

NOTE 8. FAIR VALUE MEASUREMENTS

ASC 820 clarifies that fair value is an “exit” price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1— Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2— Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3— Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within this valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table presents, by valuation hierarchy, assets that are measured at fair value on a recurring basis as of December 31, 2014 and March 31, 2014, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

\$ in thousands	Fair Value Measurements at December 31, 2014, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Mortgage servicing rights	\$—	\$—	\$211	211
Investment securities				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—	5,535	—	5,535
Federal Home Loan Mortgage Corporation	—	11,024	—	11,024
Federal National Mortgage Association	—	11,083	—	11,083
Other	—	—	47	47
U.S. Government Agency Securities	—	56,535	—	56,535
Other investments	—	16,224	—	16,224
Total available-for-sale securities	—	100,401	47	100,448
Total	\$—	\$100,401	\$258	\$100,659

\$ in thousands	Fair Value Measurements at March 31, 2014, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Mortgage servicing rights	\$—	\$—	\$265	265
Investment securities				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—	5,665	—	5,665
Federal Home Loan Mortgage Corporation	—	11,596	—	11,596
Federal National Mortgage Association	—	10,431	—	10,431
Other	—	—	49	49
U.S. Government Agency securities	—	52,189	—	52,189
Other investments	—	9,531	—	9,531
Total available-for-sale securities	—	89,412	49	89,461
Total	\$—	\$89,412	\$314	\$89,726

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights ("MSR") and certain mortgage-backed securities. Level 3 assets accounted for 0.04% of the Company's total assets at December 31, 2014 and March 31, 2014.

The Company reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next that are related to the observable inputs to a fair value measurement may result in a reclassification from one hierarchy level to another.

Below is a description of the methods and significant assumptions utilized in estimating the fair value of available-for-sale securities and MSR:

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices, and credit spreads. In addition to market information, models also incorporate transaction details, such as maturity and cash flow assumptions. Securities valued in this manner would generally be classified within Level 2 of the valuation hierarchy and primarily include such instruments as mortgage-related securities and corporate debt.

In the three and nine month period ended December 31, 2014, there were no transfers of investments between the Level 1 and Level 2 categories.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. In valuing certain securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. Quoted price information for the MSRs is not available. Therefore, MSRs are valued using market-standard models to model the specific cash flow structure. Key inputs to the model consist of principal balance of loans being serviced, servicing fees and prepayment rates.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table includes a rollforward of assets classified by the Company within Level 3 of the valuation hierarchy for the nine months ended December 31, 2014 and 2013:

\$ in thousands	Beginning balance, April 1, 2014	Total Realized/Unrealized Gains/(Losses) Recorded in Income <sup>(1)</sup>	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, December 31, 2014	Unrealized Gains and (Losses) Related to Instruments Held at December 31, 2014
Securities Available-for-Sale	\$49	\$ —	\$(2)	\$—	\$47	\$—
Mortgage servicing rights	265	(54)	—	—	211	(52)

\$ in thousands	Beginning balance, April 1, 2013	Total Realized/Unrealized Gains/(Losses) Recorded in Income <sup>(1)</sup>	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, December 31, 2013	Unrealized Gains and (Losses) Related to Instruments Held at December 31, 2013
Securities Available-for-Sale	\$50	\$ —	\$(1)	\$—	\$49	\$—
Mortgage servicing rights	275	6	—	—	281	5

<sup>(1)</sup> Includes net servicing cash flows and the passage of time.



Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g. when there is evidence of impairment). The following table presents assets and liabilities that were measured at fair value on a non-recurring basis as of December 31, 2014 and March 31, 2014, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

	Fair Value Measurements at December 31, 2014, Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
\$ in thousands				
Loans held-for-sale	\$—	\$2,606	\$—	\$2,606
Impaired loans with a specific reserve allocated	\$—	\$—	\$11,103	\$11,103
Other real estate owned	\$—	\$3,934	\$—	\$3,934

	Fair Value Measurements at March 31, 2014, Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
\$ in thousands				
Loans held-for-sale	\$—	\$5,011	\$—	\$5,011
Impaired loans with a specific reserve allocated	\$—	\$—	\$15,918	\$15,918
Other real estate owned	\$—	\$1,369	\$—	\$1,369

Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held-for-sale for the period ended December 31, 2014 was based upon amounts offered, or other acceptable valuation methods and, in some instances, prior loan loss experience of the Bank in connection with recent note sales.

The fair values of collateral dependent impaired loans are determined using various valuation techniques, including consideration of appraised values and other pertinent real estate market data.

Other real estate owned represents property acquired by the Bank in settlement of loans less costs to sell (i.e., through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value.

#### NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures regarding the fair value of financial instruments are required to include, in addition to the carrying value, the fair value of certain financial instruments, both assets and liabilities recorded on and off-balance sheet, for which it is practicable to estimate fair value. Accounting guidance defines financial instruments as cash, evidence of ownership of an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument. The fair value of a financial instrument is discussed below. In cases where quoted market prices are not available, estimated fair values have been determined by the Bank using the best available data and estimation methodology suitable for each such category of financial instruments. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate their recorded carrying value. The Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the Bank's fair value of all interest-earning assets and interest-bearing liabilities, other than those which are short-term in maturity.

The carrying amounts and estimated fair values of the Bank's financial instruments and estimation methodologies at December 31, 2014 and March 31, 2014 are as follows:

	December 31, 2014		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount	Estimated Fair Value			
\$ in thousands					
Financial Assets:					
Cash and cash equivalents	\$64,911	\$64,911	\$64,911	\$—	\$—
Restricted cash	6,354	6,354	—	6,354	—
Securities available-for-sale	100,448	100,448	—	100,401	47
FHLB Stock	2,439	2,439	—	2,439	—

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Securities held-to-maturity	12,253	12,433	—	12,433	—
Loans receivable	429,654	435,350	—	—	435,350
Loans held-for-sale	2,606	2,606	—	2,606	—
Accrued interest receivable	2,659	2,659	—	2,659	—
Mortgage servicing rights	211	211	—	—	211
Financial Liabilities:					
Deposits	521,045	502,094	305,066	197,028	—
Advances from FHLB of New York	44,000	41,834	—	41,834	—
Other borrowed money	18,403	18,927	—	18,927	—

21

---

\$ in thousands	March 31, 2014		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount	Estimated Fair Value			
<b>Financial Assets:</b>					
Cash and cash equivalents	\$122,554	\$122,554	\$122,554	\$—	\$—
Restricted cash	6,354	6,354	—	6,354	—
Securities available-for-sale	89,461	89,461	—	89,412	49
FHLB Stock	3,101	3,101	—	3,101	—
Securities held-to-maturity	9,029	8,971	—	8,971	—
Loans receivable	382,723	382,604	—	—	382,604
Loans held-for-sale	5,011	5,011	—	5,011	—
Accrued interest receivable	2,557	2,557	—	2,557	—
Mortgage servicing rights	265	265	—	—	265
<b>Financial Liabilities:</b>					
Deposits	509,366	493,922	287,767	206,155	—
Advances from FHLB of New York	52,000	53,294	—	53,294	—
Other borrowed money	18,403	18,915	—	18,915	—

### Cash and Cash Equivalents

The carrying amounts for cash and cash equivalents approximate fair value and are classified as Level 1 because they mature in three months or less.

### Restricted Cash

The carrying amounts for restricted cash approximate fair value and are classified as Level 2 because they represent short-term interest-bearing deposits.

### Securities

The fair values for securities available-for-sale and securities held-to-maturity are based on quoted market or dealer prices, if available. If quoted market or dealer prices are not available, fair value is estimated using quoted market or dealer prices for similar securities. Available-for-sale securities are classified across Levels 2 and 3. Held-to-maturity securities are classified as Level 2.

### FHLB Stock

Ownership in equity securities of the FHLB is restricted and there is no established market for resale. The carrying amount is at cost, which is the estimated fair value, and is classified as Level 2.

### Loans Receivable

The fair value of loans receivable is estimated by discounting future cash flows, using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities of such loans. The method used to estimate the fair value of loans is extremely sensitive to the assumptions and estimates used. While management has attempted to use assumptions and estimates that best reflect the Company's loan portfolio and current market conditions, a greater degree of objectivity is inherent in these values than in those determined in active markets. The loan valuations thus determined do not necessarily represent an "exit" price that would be achieved in an active market. Loans receivable are classified as Level 3.

#### Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or market value and are classified as Level 2. The valuation methodology for loans held-for-sale are based upon amounts offered or other acceptable valuation methods and, in some instances, prior loan loss experience of Carver in connection with recent note sales.

#### Accrued Interest Receivable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

#### Mortgage Servicing Rights

The fair value of mortgage servicing rights is determined by discounting the present value of estimated future servicing cash flows using current market assumptions for prepayments, servicing costs and other factors and are classified as Level 3.

#### Deposits

The fair value of demand, savings and club accounts is equal to the amount payable on demand at the reporting date. These deposits are classified as Level 1. The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities resulting in a Level 2 classification. The fair value estimates do not include the benefit that results from the low-cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.

#### Advances from FHLB-NY and Other Borrowed Money

The fair values of advances from the Federal Home Loan Bank of New York and other borrowed money are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities and are classified as Level 2.

#### Commitments to Extend Credits, Commercial, and Standby Letters of Credit

The fair value of the commitments to extend credit was estimated to be immaterial as of December 31, 2014 and March 31, 2014. The fair value of commitments to extend credit and standby letters of credit was evaluated using fees currently charged to enter into similar agreements, taking into account the risk characteristics of the borrower, and estimated to be insignificant as of the reporting date.

#### NOTE 10. IMPACT OF RECENT ACCOUNTING STANDARDS AND INTERPRETATIONS

In January 2014, the FASB issued ASU No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments clarify when an in-substance repossession or foreclosure occurs, and require disclosure of both the amount of foreclosed residential real estate property held by a creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for annual periods, and interim periods within annual periods beginning after December 15, 2015. The adoption of ASU 2014-04 is not expected to have a material impact on the Company's consolidated statement of financial condition or results of operations.

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 which may be identified by the use of such words as “may,” “believe,” “expect,” “anticipate,” “should,” “plan,” “estimate,” “predict,” “continue,” and “potential” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to the Company's financial condition, results of operations and business that are subject to various factors that could cause actual results to differ materially from these estimates. These factors include but are not limited to the following:

the ability of the Company and its subsidiary, Carver Federal, to comply with regulatory orders that may be imposed in the future upon the Bank and Company, and the effect on operations resulting from restrictions set forth in such regulatory orders;

the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;

restrictions set forth in the terms of the Series D preferred stock and in the exchange agreement with the United States Department of the Treasury (the "Treasury") that may limit our ability to raise additional capital;

national and/or local changes in economic conditions, which could occur from numerous causes, including political changes, domestic and international policy changes, unrest, war and weather, or conditions in the real estate, securities markets or the banking industry, which could affect liquidity in the capital markets, the volume of loan originations, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses;

adverse changes in the financial industry and the securities, credit, national and local real estate markets (including real estate values);

changes in our existing loan portfolio composition (including increases in commercial lending) and credit quality or changes in loan loss requirements;

changes in the level of trends of delinquencies and write-offs and in our allowance and provision for loan losses;

legislative or regulatory changes that may adversely affect the Company's business, including but not limited to the impact of the Dodd-Frank Wall Street Reform, the JOBS Act, the Consumer Protection Act and the new capital regulations, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements, regulatory fees and compliance costs, and the resources we have available to address such changes;

changes in the level of government support of housing finance;

the Company's success in implementing new business initiatives, including expanding its product line, adding new branches and ATM centers and successfully building its brand image;

our ability to control costs and expenses;

risks related to a high concentration of loans to borrowers secured by property located in our market area;

changes in interest rates, which may reduce net interest margin and net interest income;

increases in competitive pressure among financial institutions or non-financial institutions;

changes in consumer spending, borrowing and savings habits;

technological changes that may be more difficult to implement or more costly than anticipated;

changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities, which may adversely affect our business;



• changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies or the Financial Accounting Standards Board could negatively impact the Company's financial results;

• litigation or regulatory actions, whether currently existing or commencing in the future, which may restrict our operations or strategic business plan;

• the ability to originate and purchase loans with attractive terms and acceptable credit quality; and

the ability to attract and retain key members of management, and to address staffing needs in response to product demand or to implement business initiatives.

Because forward-looking statements are subject to numerous assumptions, risks and uncertainties, actual results or future events could differ possibly materially from those that the company anticipated in its forward-looking statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date of this Quarterly Report on Form 10-Q, and the Company assumes no obligation to, and expressly disclaims any obligation to, update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements, except as legally required. For a discussion of additional factors that could adversely affect the Company's future performance, see "(Part I. Financial Information) Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and "(Part II. Other information) Item 1A — Risk Factors."

## Overview

The Company is the holding company for Carver Federal, a federally chartered savings bank. The Company is headquartered in New York, New York. The Company conducts business as a unitary savings and loan holding company, and the principal business of the Company consists of the operation of Carver Federal. Carver Federal was founded in 1948 to serve African-American communities whose residents, businesses and institutions had limited access to mainstream financial services. The Bank remains headquartered in Harlem, and predominantly all of its ten branches and four stand-alone 24/7 ATM centers are located in low- to moderate-income neighborhoods. Many of these historically underserved communities have experienced unprecedented growth and diversification of incomes, ethnicity and economic opportunity, after decades of public and private investment.

Carver Federal is the largest African-American operated bank in the United States. The Bank remains dedicated to expanding wealth enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank's third consecutive "Outstanding" rating, issued by the OCC following its most recent Community Reinvestment Act ("CRA") examination in December 2012. As of December 2012, approximately 78% of newly originated loans were within Carver's assessment area, and the Bank has demonstrated excellent responsiveness to its assessment area's needs through its community development lending, investing and service activities. The Bank had approximately \$644.4 million in assets and 129 employees as of December 31, 2014.

Carver Federal engages in a wide range of consumer and commercial banking services. Carver Federal provides deposit products, including demand, savings and time deposits for consumers, businesses, and governmental and quasi-governmental agencies in its local market area within New York City. In addition to deposit products, Carver Federal offers a number of other consumer and commercial banking products and services, including debit cards, online banking, online bill pay and telephone banking. Carver Federal also offers a suite of products and services for unbanked and underbanked consumers, branded as Carver Community Cash. This includes check cashing, wire transfers, bill payment, reloadable prepaid cards and money orders.

Carver Federal offers loan products covering a variety of asset classes, including commercial, multifamily and residential mortgages, construction loans and business loans. The Bank finances mortgage and loan products through deposits or borrowings. Funds not used to originate mortgages and loans are invested primarily in U.S. government agency securities and mortgage-backed securities.

The Bank's primary market area for deposits consists of the areas served by its ten branches in the Brooklyn, Manhattan and Queens boroughs of New York City. The neighborhoods in which the Bank's branches are located

have historically been low- to moderate-income areas. The Bank's primary lending market includes Kings, New York, Bronx and Queens Counties in New York City, and lower Westchester County, New York. Although the Bank's branches are primarily located in areas that were historically underserved by other financial institutions, the Bank faces significant competition for deposits and mortgage lending in its market areas. Management believes that this competition has become more intense as a result of increased examination emphasis by federal banking regulators on financial institutions' fulfillment of their responsibilities under the CRA and more recently due to the decline in demand for loans. Carver Federal's market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. The Bank's competition for loans comes principally from commercial banks, savings institutions and mortgage banking companies. The Bank's most direct competition for deposits comes from commercial banks, savings institutions and credit unions. Competition for deposits also comes from money market mutual funds, corporate and government securities funds, and financial intermediaries such as brokerage firms and insurance companies. Many of the Bank's competitors have

substantially greater resources and offer a wider array of financial services and products. This, combined with competitors' larger presence in the New York market, add to the challenges the Bank faces in expanding its current market share and growing its near-term profitability.

Carver Federal's more than 65 year history in its market area, its community involvement and relationships, targeted products and services and personal service consistent with community banking, help the Bank compete with competitors that have entered its market.

The Bank formalized its many community focused investments on August 18, 2005, by forming Carver Community Development Corporation ("CCDC"). CCDC oversees the Bank's participation in local economic development and other community-based initiatives, including financial literacy activities. CCDC coordinates the Bank's development of an innovative approach to reach the unbanked customer market in Carver Federal's communities. Importantly, CCDC spearheads the Bank's applications for grants and other resources to help fund these important community activities. In this connection, Carver Federal has successfully competed with large regional and global financial institutions in a number of competitions for government grants and other awards.

#### New Markets Tax Credit Award

The NMTC award is used to stimulate economic development in low- to moderate-income communities. The NMTC award enables the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating revitalization of the community, pursuant to the goals of the NMTC program. NMTC awards provide a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. The credits are allocated over seven years from the time of the qualified investment. Alternatively, the Bank can utilize the award in projects where another investor entity provides funding and receives the tax benefits of the award in exchange for the Bank receiving fee income.

In June 2006, Carver Federal was selected by the U.S. Department of Treasury, in a highly competitive process, to receive an award of \$59 million in New Markets Tax Credits. CCDC won a second NMTC award of \$65 million in May 2009, and a third award of \$25 million in August 2011. In December 2010, the Bank divested its interest in the remaining \$7.8 million NMTC tax credits that it would have received through the period ending March 31, 2014, by exchanging its equity interests in the special purpose entity that acquired the equity interest. In addition, Carver still provides funding to the underlying projects. While providing funding to investments in the NMTC eligible projects, CCDC has retained a 0.01% interest in other special purpose entities created to facilitate the investments, with the investors owning the remaining 99.99%. CCDC also provides certain administrative services to these entities and receives servicing fee income during the term of the qualifying projects. The Bank has determined that it and CCDC do not have the sole power to direct activities of these special purpose entities that significantly impact the entities' performance, and therefore are not the primary beneficiaries of these entities. The Bank has a contingent obligation to reimburse the investors for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the investors' ability to otherwise utilize tax credits stemming from the award. As of December 31, 2014, all three award allocations have been fully utilized in qualifying projects.

The Bank's variable interest entities ("VIEs"), consolidated and unconsolidated, in which the company holds significant variable interests or has continuing involvement through servicing a majority of assets in a VIE, are presented below.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Involvement with SPE (000's)						Funded Exposure		Unfunded Exposure	Total	
	\$ in thousands	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments	Funding Commitments	Maximum exposure to loss
Carver Statutory Trust 1	—	—	—	13,400	13,400	13,000	400	—	—	\$ 13,400
CDE 1-9, CDE	—	40,000	14,310	—	14,310	—	—	—	7,800	7,800
11-12										
CDE 10	1,700	19,000	—	15,317	15,317	—	—	—	7,410	7,410
CDE 13	500	10,500	—	10,568	10,568	—	1	—	4,095	4,096
CDE 14	400	10,000	—	10,004	10,004	—	1	—	3,900	3,901
CDE 15, CDE 16, CDE 17	900	20,500	—	20,755	20,755	—	2	—	7,995	7,997
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,169	5,170
CDE 19	500	10,746	—	10,912	10,912	—	1	—	4,191	4,192
CDE 20	625	12,500	—	12,241	12,241	—	1	—	4,875	4,876
CDE 21	625	12,500	—	12,293	12,293	—	1	—	4,875	4,876
Total	\$ 5,850	\$ 149,000	\$ 14,310	\$ 118,772	\$ 133,082	\$ 13,000	\$ 408	\$—	\$ 50,310	\$ 63,718

(1) Excludes any proceeds realized from exchange of equity interest in CDEs as detailed above.

### Critical Accounting Policies

Note 2 to the Company's audited Consolidated Financial Statements for the year ended March 31, 2014 included in its 2014 Form 10-K, as supplemented by this report, contains a summary of significant accounting policies. The Company believes its policies, with respect to the methodologies used to determine the allowance for loan and lease losses and assessment of the recoverability of the deferred tax asset involve a high degree of complexity and require management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. The following description of these policies should be read in conjunction with the corresponding section of the Company's fiscal 2014 Form 10-K.

#### Allowance for Loan and Lease Losses

The adequacy of the Bank's ALLL is determined, in accordance with the Interagency Policy Statement on the Allowance for Loan and Lease Losses (the "Interagency Policy Statement") released by the OCC on December 13, 2006 and in accordance with ASC Subtopics 450-20 "Loss Contingencies" and 310-10 "Accounting by Creditors for Impairment of a Loan." Compliance with the Interagency Policy Statement includes management's review of the Bank's loan portfolio, including the identification and review of individual problem situations that may affect a borrower's ability to repay. In addition, management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral, current charge-offs and other factors that may affect the portfolio, including a review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio.

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is a great amount of judgment applied to developing the

ALLL. These assumptions and estimates are susceptible to significant change based on the current environment. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio.

#### General Reserve Allowance

Carver's maintenance of a general reserve allowance in accordance with ASC Subtopic 450-20 includes the Bank's evaluating the risk to loss potential of homogeneous pools of loans based upon historical loss factors and a review of nine different environmental factors that are then applied to each pool. The pools of loans ("Loan Type") are:

#### 1-4 Family

27

---

- Multifamily
- Commercial Real Estate
- Construction
- Business Loans
- SBA Loans
- Other (Consumer and Overdraft Accounts)

The pools are further segregated into the following risk rating classes:

- Pass
- Special Mention
- Substandard
- Doubtful

The Bank next applies to each pool a risk factor that determines the level of general reserves for that specific pool. The risk factors are generally comprised of actual losses for the most recent ten quarters as a percentage of each respective Loan Type plus nine qualitative factors. As the loss experience for a Loan Type increases or decreases, the level of reserves required for that particular Loan Type also increases or decreases. Because actual loss experience may not adequately predict the level of losses inherent in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be adjusted based upon any of those factors. As the risk ratings worsen, some of the qualitative factors tend to increase. The nine qualitative factors the Bank considers and may utilize are:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses (Policy & Procedures).
2. Changes in relevant economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (Economy).
3. Changes in the nature or volume of the loan portfolio and in the terms of loans (Nature & Volume).
4. Changes in the experience, ability, and depth of lending management and other relevant staff (Management).
5. Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans (Problem Assets).
6. Changes in the quality of the loan review system (Loan Review).
7. Changes in the value of underlying collateral for collateral dependent loans (Collateral Values).
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations (Concentrations).
9. The effect of other external forces such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio (External Forces).

#### Specific Reserve Allowance

Carver also maintains a specific reserve allowance for criticized and classified loans individually reviewed for impairment in accordance with ASC Subtopic 310-10 guidelines. The amount assigned to the specific reserve allowance is individually determined based upon the loan. The ASC Subtopic 310-10 guidelines require the use of one of three approved methods to estimate the amount to be reserved and/or charged off for such credits. The three methods are as follows:

1. The present value of expected future cash flows discounted at the loan's effective interest rate;
2. The loan's observable market price; or
3. The fair value of the collateral if the loan is collateral dependent.

The institution may choose the appropriate ASC Subtopic 310-10 measurement on a loan-by-loan basis for an individually impaired loan, except for an impaired collateral dependent loan. Guidance requires impairment of a collateral dependent loan to be measured using the fair value of collateral method. A loan is considered "collateral dependent" when the repayment of the debt will be provided solely by the underlying collateral, and there are no other available and reliable sources of repayment.

Criticized and classified loans with at risk balances of \$500,000 or more and loans below \$500,000 that the Chief Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Subtopic 310-10. Carver also performs impairment analysis for all troubled debt restructurings ("TDRs"). If it is determined that it is probable the Bank will be unable to collect all amounts due according with the contractual terms of the loan agreement, the loan is categorized as impaired.



If the loan is determined to be not impaired, it is then placed in the appropriate pool of criticized and classified loans to be evaluated collectively for impairment. Loans determined to be impaired are evaluated to determine the amount of impairment based on one of the three measurement methods noted above. The Bank then determines whether the impairment amount is permanent, in which case the loan is written down by the amount of the impairment, or if it is other than permanent, in which case the Bank establishes a specific valuation reserve that is included in the total ALLL. In accordance with guidance, if there is no impairment amount, no reserve is established for the loan.

#### Troubled Debt Restructured Loans

TDRs are those loans whose terms have been modified because of deterioration in the financial condition of the borrower and a concession is made. Modifications could include extension of the terms of the loan, reduced interest rates, capitalization of interest and forgiveness of accrued interest and/or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered restructured until paid in full. For cash flow dependent loans, the Bank records a specific valuation allowance reserve equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the loan's original effective interest rate, and the loan's original carrying value. For a collateral dependent loan, the Bank records an impairment charge when the current estimated fair value of the property that collateralizes the impaired loan, if any, is less than the recorded investment in the loan. TDR loans remain on nonaccrual status until they have performed in accordance with the restructured terms for a period of at least six months.

#### Securities Impairment

The Bank's available-for-sale securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive (loss) income. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The fair values of securities in portfolio are based on published or securities dealers' market values and are affected by changes in interest rates. On a quarterly basis, the Bank reviews and evaluates the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. The Bank generally views changes in fair value caused by changes in interest rates as temporary, which is consistent with its experience. The amount of an other-than-temporary impairment, when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Bank will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive (loss) income. This guidance also requires additional disclosures about investments in an unrealized loss position and the methodology and significant inputs used in determining the recognition of other-than-temporary impairment. At December 31, 2014, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

#### Deferred Tax Asset

The Company records income taxes in accordance with ASC 740 Topic "Income Taxes," as amended, using the asset and liability method. Income tax expense (benefit) consists of income taxes currently payable/(receivable) and deferred income taxes. Temporary differences between the basis of assets and liabilities for financial reporting and tax purposes are measured as of the balance sheet date. Deferred tax liabilities or recognizable deferred tax assets are calculated on such differences, using current statutory rates, which result in future taxable or deductible amounts. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Where applicable, deferred tax assets are reduced by a valuation allowance for any portion determined not likely to be realized. This valuation allowance would subsequently be adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

On June 29, 2011, the Company raised \$55 million of capital, which resulted in a \$51.4 million increase in equity after considering the effect of various expenses associated with the capital raise. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carryforwards, general business credits, and recognized built-in losses, upon a change in ownership. The Company expects to be subject to an annual limitation of approximately \$900 thousand. The Company has a net deferred tax asset ("DTA") of \$0 since it has recorded a full valuation allowance on its DTA.

#### Stock Repurchase Program

On August 6, 2002, the Company announced a stock repurchase program to repurchase up to 15,442 shares of its outstanding common stock. As of December 31, 2014, 11,744 shares of its common stock have been repurchased in open market transactions at an average price of \$235.80 per share (as adjusted for 1-for-15 reverse stock split that occurred on October 27,

2011). The Company intends to use repurchased shares to fund its stock-based benefit and compensation plans and for any other purpose the Board deems advisable in compliance with applicable law. No shares were repurchased during the three and nine months ended December 31, 2014. As a result of the Company's participation in the TARP CDCI, the U.S. Treasury's prior approval is required to make further repurchases. As discussed below, the U.S. Treasury converted its preferred stock into common stock, which the U.S. Treasury continues to hold. The Company continues to be bound by the TARP CDCI restrictions so long as the U.S. Treasury is a common stockholder.

### Liquidity and Capital Resources

Liquidity is a measure of the Bank's ability to generate adequate cash to meet its financial obligations. The principal cash requirements of a financial institution are to cover potential deposit outflows, fund increases in its loan and investment portfolios and ongoing operating expenses. The Bank's primary sources of funds are deposits, borrowed funds and principal and interest payments on loans, mortgage-backed securities and investment securities. While maturities and scheduled amortization of loans, mortgage-backed securities and investment securities are predictable sources of funds, deposit flows and loan and mortgage-backed securities prepayments are strongly influenced by changes in general interest rates, economic conditions and competition. Carver Federal monitors its liquidity utilizing guidelines that are contained in a policy developed by its management and approved by its Board of Directors. Carver Federal's several liquidity measurements are evaluated on a frequent basis. The Bank was in compliance with this policy as of December 31, 2014.

Management believes Carver Federal's short-term assets have sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash requirements. Additionally, Carver Federal has other sources of liquidity including the ability to borrow from the Federal Home Loan Bank of New York ("FHLB-NY") utilizing unpledged mortgage-backed securities and certain mortgage loans, the sale of available-for-sale securities and the sale of certain mortgage loans. Net borrowings decreased \$11.0 million, or 15.6%, to \$59.4 million at December 31, 2014 from \$70.4 million at March 31, 2014 as the growth in deposits replaced maturing short-term borrowings. At December 31, 2014, \$41.0 million of the Bank's borrowings with a weighted average rate of 1.1% was scheduled to mature over the next three years. The continued disruption in the credit markets has not materially impacted the Company's ability to access borrowings. At December 31, 2014, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional \$23.1 million on a secured basis, utilizing mortgage-related loans and securities as collateral.

The Bank's most liquid assets are cash and short-term investments. The level of these assets is dependent on the Bank's operating, investing and financing activities during any given period. At December 31, 2014 and March 31, 2014, assets qualifying for short-term liquidity, including cash and cash equivalents, totaled \$64.9 million and \$122.6 million, respectively.

The most significant potential liquidity challenge the Bank faces is variability in its cash flows as a result of mortgage refinance activity. When mortgage interest rates decline, customers' refinance activities tend to accelerate, causing the cash flow from both the mortgage loan portfolio and the mortgage-backed securities portfolio to accelerate. In contrast, when mortgage interest rates increase, refinance activities tend to slow, causing a reduction of liquidity. However, in a rising rate environment, customers generally tend to prefer fixed rate mortgage loan products over variable rate products. Carver Federal is also at risk to deposit outflows.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During the nine months ended December 31, 2014, total cash and cash equivalents decreased \$57.6 million to \$64.9 million at December 31, 2014, compared to \$122.6 million at March 31, 2014, reflecting cash used in investing activities of \$56.9 million, cash used in operating activities of \$1.4 million, and cash provided by financing activities of \$679 thousand.

Net cash used in investing activities of \$56.9 million was primarily attributed to loan originations and purchases of \$91.5 million partially offset by principal repayments of \$45.6 million, and securities purchases of \$17.5 million partially offset by investment calls and maturities of \$9.1 million. Net cash used in operating activities of \$1.4 million was primarily due to recoveries on loans previously charged off and premiums paid on the loan pool purchases. Net cash provided by financing activities of \$679 thousand resulted from an increase in deposits of \$11.7 million, offset by a net decrease in FHLB-NY advances and other borrowings of \$11.0 million.

The OCC requires that the Bank meet minimum capital requirements. Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The table below presents the capital position of the Bank at December 31, 2014 (dollars in thousands):

\$ in thousands	Tier 1 Leverage	Tier 1 Risk- Based Capital	Total Risk- Based Capital		
GAAP Capital at December 31, 2014	\$65,801	\$65,801	\$65,801		
Add:					
General valuation allowances	—	—	5,247		
Qualifying subordinated debt	—	—	4,000		
Other	(21	) (21	) (21	)	)
Deduct:					
Unrealized losses on securities available-for-sale, net	(1,959	) (1,959	) (1,959	)	)
Regulatory Capital	67,739	67,739	76,986		
Minimum Capital Requirement	58,132	54,483	54,483		
Minimum Capital Requirement Ratio	4.00	% 4.00	% 8.00	%	%
Regulatory Capital Excess	\$9,607	\$13,256	\$22,503		
Capital Ratios	10.49	% 16.16	% 18.37	%	%

### Bank Regulatory Matters

On February 7, 2011, the Bank and the Company consented to enter into the Bank Order and the Company Order with the OTS. The OTS issued these Orders based upon its findings that the Bank and the Company were operating with an inadequate level of capital for the volume, type and quality of assets held by the Bank and the Company, that they were operating with an excessive level of adversely classified assets, and that their earnings were inadequate to augment its capital. The Bank Order included a capital directive requiring the Bank to achieve and maintain minimum regulatory capital levels. At December 31, 2014, the Bank's capital level exceeded the regulatory requirements with a Tier 1 leverage capital ratio of 10.49%, Tier 1 risk-based capital ratio of 16.16%, and a total risk-based capital ratio of 18.37%.

On November 3, 2014, the OCC notified the Bank that the OCC had determined that the Bank had satisfied all of the requirements of the Bank Order and directed that the Bank Order be terminated. In addition, the OCC notified the Bank that the OCC had determined that the Bank was no longer in "troubled condition" and was relieved of all prior conditions imposed on the Bank by the OTS as a result of its troubled condition designation. The Company Order has not been terminated. Under the Company Order, the Company is prohibited from paying any dividends without prior regulatory approval.

### Mortgage Representation and Warranty Liabilities

During the period 2004 through 2009, the Bank originated 1-4 family residential mortgage loans and sold the loans to the Federal National Mortgage Association ("FNMA"). The loans were sold to FNMA with the standard representations and warranties for loans sold to the Government Sponsored Entities (GSEs). The Bank may be required to repurchase these loans in the event of breaches of these representations and warranties. In the event of a repurchase, the Bank is typically required to pay the unpaid principal balance as well as outstanding interest and fees. The Bank then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The Bank is exposed to any losses on repurchased loans after giving effect to any recoveries on the collateral.

Through fiscal 2011 none of the loans sold to FNMA were repurchased by the Bank. During fiscal 2012, 2013, and 2014, three, ten and six loans, respectively, were repurchased by the Bank. During the first nine months of fiscal 2015, one loan that had been sold to FNMA was repurchased by the Bank. At December 31, 2014, the Bank continues to service 154 loans with a principal balance of \$27.8 million for FNMA that had been sold with standard

representations and warranties.

31

---

The following table presents information on open requests from FNMA. The amounts presented are based on outstanding loan principal balances.

\$ in thousands	Loans sold to FNMA
Open claims as of March 31, 2014 <sup>(1)</sup>	\$2,075
Gross new demands received	129
Loans repurchased/made whole	(129) )
Demands rescinded	—
Principal payments received on open claims	(22) )
Open claims as of December 31, 2014 <sup>(1)</sup>	\$2,053

<sup>(1)</sup> The open claims include all open requests received by the Bank where either FNMA has requested loan files for review, where FNMA has not formally rescinded the repurchase request or where the Bank has not agreed to repurchase the loan. The amounts reflected in this table are the unpaid principal balance and do not incorporate any losses the Bank would incur upon the repurchase of these loans.

Management has established a representation and warranty reserve for losses associated with the repurchase of mortgage loans sold by the Bank to FNMA that we consider to be both probable and reasonably estimable. Reserves of \$365 thousand at December 31, 2014 are reported in our consolidated statement of financial condition as a component of other liabilities.

The table below summarizes changes in our representation and warranty reserves during the nine months ended December 31, 2014:

\$ in thousands	December 31, 2014
Representation and warranty repurchase reserve, March 31, 2014 <sup>(1)</sup>	\$287
Net provision for repurchase losses <sup>(2)</sup>	78
Net realized losses <sup>(2)</sup>	—
Representation and warranty repurchase reserve, end of period <sup>(1)</sup>	\$365

<sup>(1)</sup> Reported in our consolidated balance sheets as a component of other liabilities.

<sup>(2)</sup> Component of other non-interest expense.

Comparison of Financial Condition at December 31, 2014 and March 31, 2014

Assets

At December 31, 2014, total assets increased \$4.5 million, or 0.7%, to \$644.4 million, compared to \$639.8 million at March 31, 2014. The overall change was primarily due to increases of \$46.9 million in the loan portfolio net of the allowance for loan losses and \$14.2 million in the investment portfolio, offset by a decrease of \$59.3 million in cash and due from banks.

Total investment securities increased \$14.2 million, or 14.4%, to \$112.7 million at December 31, 2014, compared to \$98.5 million at March 31, 2014 as the Bank purchased new securities to increase its investment portfolio as it redeployed excess cash balances.

Net loans receivable increased \$45.6 million, or 11.7%, to \$435.5 million at December 31, 2014, compared to \$390.0 million at March 31, 2014 following growth in business and residential loans from loan purchases and originations.

HFS loans decreased \$2.4 million, or 48.0%, to \$2.6 million at December 31, 2014 from \$5.0 million at March 31, 2014, following transfer of a loan into other real estate owned during the three months ended June 30, 2014.

Liabilities and Equity

Total liabilities increased \$1.5 million, or 0.3%, to \$590.2 million at December 31, 2014, compared to \$588.7 million at March 31, 2014 following growth in deposits, offset by a decrease in borrowed funds.

Deposits increased \$11.7 million, or 2.3%, to \$521.0 million at December 31, 2014, compared to \$509.4 million at March 31, 2014 following an increase in money market and interest-bearing checking accounts, partially offset by lower certificates of deposits and savings accounts.

Advances from the Federal Home Loan Bank of New York ("FHLB-NY") and other borrowed money decreased \$11.0 million, or 15.6%, to \$59.4 million at December 31, 2014, compared to \$70.4 million at March 31, 2014, as growth in deposits replaced maturing short-term borrowings.

Total equity increased \$3.0 million, or 5.9%, to \$54.2 million at December 31, 2014, compared to \$51.2 million at March 31, 2014. The increase was primarily due to a \$2.8 million reduction in unrealized losses on investments and net income earned for the nine month period.

Asset/Liability Management

The Company's primary earnings source is net interest income, which is affected by changes in the level of interest rates, the relationship between the rates on interest-earning assets and interest-bearing liabilities, the impact of interest rate fluctuations on asset prepayments, the level and composition of deposits and assets, and the credit quality of earning assets. Management's asset/liability objectives are to maintain a strong, stable net interest margin, to utilize the Company's capital effectively without taking undue risks, to maintain adequate liquidity and to manage its exposure to changes in interest rates.

The economic environment is uncertain regarding future interest rate trends. Management monitors the Company's cumulative gap position, which is the difference between the sensitivity to rate changes of the Company's interest-earning assets and interest-bearing liabilities. In addition, the Company uses various tools to monitor and manage interest rate risk, such as a model that projects net interest income based on increasing or decreasing interest rates.



Off-Balance Sheet Arrangements and Contractual Obligations

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and in connection with its overall investment strategy. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are not recorded in the consolidated financial statements. Such instruments primarily include lending obligations, including commitments to originate mortgage and consumer loans and to fund unused lines of credit.

The Bank has contractual obligations related to operating leases as well as a contingent liability related to a standby letter of credit as discussed in our Form 10-K for the year ended March 31, 2014.

The following table reflects the Bank's outstanding lending commitments and contractual obligations as of December 31, 2014:

\$ in thousands	
Commitments to fund mortgage loans	\$9,100
Commitments to fund commercial and consumer loans	8,690
Lines of credit	5,271
Letters of credit	244
Total	\$23,305

### Comparison of Operating Results for the Three and Nine Months Ended December 31, 2014 and 2013

#### Overview

The Company reported net income attributable to Carver of \$111 thousand for the three months ended December 31, 2014, compared to a net loss attributable to Carver of \$823 thousand for the comparative prior year period. Earnings per share for the quarter ended December 31, 2014 was \$0.03, compared to a loss per share of \$0.22 for the prior year period. The increase was primarily due to higher non-interest expense in the prior year quarter attributable to the cost of terminating the Bank's pension plan, partially offset by lower interest income in the current quarter.

The Company reported net income attributable to Carver of \$491 thousand for the nine months ended December 31, 2014, compared to net loss attributable to Carver of \$69 thousand for the comparative prior year period. Earnings per share for the nine months ended December 31, 2014 was \$0.13, compared to a loss per share of \$0.02 for the prior year period. The increase was primarily due to recoveries in the loan loss provision, partially offset by lower net interest income and non-interest income. Employee compensation and benefits expense was lower for the nine months ended December 31, 2014 largely due to the expense associated with terminating the Company's pension plan recognized in the prior year period, which was mostly offset by increases in salaries and benefits related to adding additional lending staff and the associated support personnel.

The following table reflects selected operating ratios for the three and nine months ended December 31, 2014 and 2013 (unaudited):

Selected Financial Data:	Three Months Ended December 31,		Nine Months Ended December 31,			
	2014	2013	2014	2013		
Return on average assets <sup>(1)</sup>	0.07	% (0.56)	)%	0.10	% (0.02)	)%
Return on average stockholders' equity <sup>(2) (8)</sup>	0.82	% (6.40)	)%	1.21	% (0.17)	)%
Return on average stockholders' equity, excluding AOCI <sup>(2) (8)</sup>	0.79	% (5.75)	)%	1.15	% (0.16)	)%
Net interest margin <sup>(3)</sup>	2.82	% 3.54	%	2.99	% 3.39	%
Interest rate spread <sup>(4)</sup>	2.71	% 3.42	%	2.87	% 3.26	%
Efficiency ratio <sup>(5) (8)</sup>	119.95	% 132.33	%	112.93	% 103.42	%
Operating expenses to average assets <sup>(6)</sup>	4.33	% 5.64	%	4.29	% 4.48	%
Average stockholders' equity to average assets <sup>(7) (8)</sup>	8.67	% 8.79	%	8.65	% 9.20	%
Average stockholders' equity, excluding AOCI, to average assets <sup>(7) (8)</sup>	8.99	% 9.79	%	9.10	% 9.60	%
Average interest-earning assets to average interest-bearing liabilities	1.17	x 1.19	x	1.19	x 1.19	x

<sup>(1)</sup> Net income (loss), annualized, divided by average total assets.

<sup>(2)</sup> Net income (loss), annualized, divided by average total stockholders' equity.

<sup>(3)</sup> Net interest income, annualized, divided by average interest-earning assets.

- (4) Combined weighted average interest rate earned less combined weighted average interest rate cost.
- (5) Operating expense divided by sum of net interest income and non-interest income.
- (6) Non-interest expense, annualized, divided by average total assets.
- (7) Total average stockholders' equity divided by total average assets for the period.
- (8) See Non-GAAP Financial Measures disclosure for comparable GAAP measures.

## Non-GAAP Financial Measures

In addition to evaluating the Company's results of operations in accordance with U.S. generally accepted accounting principles ("GAAP"), management routinely supplements their evaluation with an analysis of certain non-GAAP financial measures, such as the efficiency ratio, return on average stockholders' equity excluding average accumulated other comprehensive income (loss) ("AOCI"), and average stockholders' equity excluding AOCI to average assets. Management believes these non-GAAP financial measures provide information that is useful to investors in understanding the Company's underlying operating performance and trends, and facilitates comparisons with the performance of other banks and thrifts. Further, the efficiency ratio is used by management in its assessment of financial performance, including non-interest expense control.

Return on equity measures how efficiently we generate profits from the resources provided by our net assets. Return on average stockholders' equity is calculated by dividing annualized net income (loss) attributable to Carver by average stockholders' equity, excluding AOCI. Management believes that this performance measure explains the results of the Company's ongoing businesses in a manner that allows for a better understanding of the underlying trends in the Company's current businesses. For purposes of the Company's presentation, AOCI includes the changes in the market or fair value of its investment portfolio and the former pension plan. These fluctuations have been excluded due to the unpredictable nature of this item and is not necessarily indicative of current operating or future performance.

\$ in thousands	Three Months Ended December 31,		Nine Months Ended December 31,			
	2014	2013	2014	2013		
Average Stockholders' Equity	\$54,395	\$51,438	\$53,985	\$55,105		
Average AOCI	(2,023)	(5,833)	(2,813)	(2,378)	)	)
Average Stockholders' Equity, excluding AOCI	\$56,418	\$57,271	\$56,798	\$57,483		
Return on Average Stockholders' Equity	0.82	% (6.40)	%	1.21	% (0.17)	%
Return on Average Stockholders' Equity, excluding AOCI	0.79	% (5.75)	%	1.15	% (0.16)	%
Average Stockholders' Equity to Average Assets	8.67	% 8.79	%	8.65	% 9.20	%
Average Stockholders' Equity, excluding AOCI, to Average Assets	8.99	% 9.79	%	9.10	% 9.60	%

## Analysis of Net Interest Income

The Company's profitability is primarily dependent upon net interest income and is also affected by the provision for loan losses, non-interest income, non-interest expense and income taxes. Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned and paid. The Company's net interest income is significantly impacted by changes in interest rate and market yield curves.

Net interest income decreased \$773 thousand, or 15.4%, to \$4.3 million for the three months ended December 31, 2014, compared to \$5.0 million for the comparative prior year period. Net interest income decreased \$935 thousand, or 6.4%, to \$13.6 million for the nine months ended December 31, 2014, compared to \$14.6 million for the prior year period.

The following table sets forth certain information relating to the Company's average interest-earning assets and average interest-bearing liabilities, and their related average yields and costs for the three and nine months ended December 31, 2014 and 2013. Average yields are derived by dividing annualized income or expense by the average balances of assets or liabilities, respectively, for the periods shown. Average balances are derived from daily or month-end balances as available and applicable. Management does not believe that the use of average monthly balances instead of average daily balances represents a material difference in information presented. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yield and cost include fees, which are considered adjustments to yields.

CARVER BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED AVERAGE BALANCES  
(Unaudited)

\$ in thousands	For the Three Months Ended December 31,							
	2014 Average Balance	Interest	Average Yield/Cost	2013 Average Balance	Interest	Average Yield/Cost		
<b>Interest-Earning Assets:</b>								
Loans <sup>(1)</sup>	\$414,547	\$4,677	4.51	% \$401,843	\$5,412	5.39	%	
Mortgage-backed securities	35,354	197	2.23	% 42,275	247	2.34	%	
Investment securities	54,471	263	1.93	% 46,789	237	2.03	%	
Restricted cash deposit	6,354	—	0.03	% 6,556	—	0.03	%	
Equity securities <sup>(2)</sup>	1,727	18	4.14	% 2,323	23	3.93	%	
Other investments and federal funds sold	90,153	110	0.48	% 67,281	85	0.50	%	
Total interest-earning assets	602,606	5,265	3.49	% 567,067	6,004	4.23	%	
Non-interest-earning assets	24,909			18,192				
Total assets	\$627,515			\$585,259				
<b>Interest-Bearing Liabilities:</b>								
<b>Deposits</b>								
Interest-bearing checking	\$29,018	\$12	0.16	% \$24,632	\$10	0.16	%	
Savings and clubs	94,338	63	0.26	% 94,963	63	0.26	%	
Money market	148,778	185	0.49	% 116,067	134	0.46	%	
Certificates of deposit	195,443	473	0.96	% 185,147	478	1.02	%	
Mortgagors deposits	1,939	8	1.64	% 1,938	9	1.84	%	
Total deposits	469,516	741	0.63	% 422,747	694	0.65	%	
Borrowed money	43,577	272	2.48	% 53,120	285	2.13	%	
Total interest-bearing liabilities	513,093	1,013	0.78	% 475,867	979	0.82	%	
<b>Non-interest-bearing liabilities</b>								
Demand	53,350			55,548				
Other liabilities	7,178			2,484				
Total liabilities	573,621			533,899				
Non-controlling interest	(501 )			(78 )				
Stockholders' equity	54,395			51,438				
Total liabilities and equity	\$627,515			\$585,259				
Net interest income		\$4,252			\$5,025			
Average interest rate spread			2.71	%		3.42	%	
Net interest margin			2.82	%		3.54	%	

<sup>(1)</sup> Includes nonaccrual loans

<sup>(2)</sup> Includes FHLB-NY stock

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	For the Nine Months Ended December 31,							
	2014		2013		2013		2013	
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
<b>Interest-Earning Assets:</b>								
Loans <sup>(1)</sup>	\$401,856	\$14,838	4.92 %		\$379,759	\$15,590	5.47 %	
Mortgage-backed securities	36,070	595	2.20 %		52,804	796	2.01 %	
Investment securities	53,468	762	1.90 %		56,841	777	1.82 %	
Restricted cash deposit	6,354	1	0.03 %		7,452	1	0.03 %	
Equity securities <sup>(2)</sup>	1,822	59	4.30 %		2,334	69	3.92 %	
Other investments and federal funds sold	106,692	357	0.44 %		73,301	283	0.51 %	
Total interest-earning assets	606,262	16,612	3.65 %		572,491	17,516	4.08 %	
Non-interest-earning assets	17,721				26,596			
Total assets	\$623,983				\$599,087			
<b>Interest-Bearing Liabilities:</b>								
<b>Deposits</b>								
Interest-bearing checking	\$26,744	\$33	0.16 %		\$25,534	\$30	0.16 %	
Savings and clubs	96,385	193	0.27 %		96,503	192	0.26 %	
Money market	141,159	517	0.49 %		115,431	400	0.46 %	
Certificates of deposit	199,803	1,416	0.94 %		189,248	1,429	1.00 %	
Mortgagors deposits	1,977	23	1.54 %		2,012	27	1.78 %	
Total deposits	466,068	2,182	0.62 %		428,728	2,078	0.64 %	
Borrowed money	43,599	815	2.48 %		53,361	888	2.21 %	
Total interest-bearing liabilities	509,667	2,997	0.78 %		482,089	2,966	0.82 %	
<b>Non-interest-bearing liabilities</b>								
Demand	53,432				55,753			
Other liabilities	7,307				6,306			
Total liabilities	570,406				544,148			
Non-controlling interest	(408 )				(166 )			
Stockholders' equity	53,985				55,105			
Total liabilities & equity	\$623,983				\$599,087			
Net interest income		\$13,615				\$14,550		
Average interest rate spread			2.87 %				3.26 %	
Net interest margin			2.99 %				3.39 %	

<sup>(1)</sup> Includes nonaccrual loans

<sup>(2)</sup> Includes FHLB-NY stock

### Interest Income

Interest income decreased \$739 thousand, or 12.3%, to \$5.3 million for the three months ended December 31, 2014, compared to \$6.0 million for the prior year quarter. Interest income decreased \$904 thousand, or 5.2%, to \$16.6 million for the nine months ended December 31, 2014, compared to \$17.5 million for the prior year period. Although the average balance of loans increased for both comparative periods compared to the prior year, the average yield on loans decreased. A change in loan mix, with higher one-to-four family loans and lower multifamily loans, led to lower average yields on loans. Interest income on mortgage-backed securities decreased \$50 thousand for the three months

ended and \$201 thousand for the nine months ended December 31, 2014 following decreases of \$6.9 million and \$16.7 million, respectively, in the average balances of mortgage-backed securities from the prior year periods as the Bank repositioned its investment portfolio with higher yielding securities. The decrease in average balance was partially offset by an increase in average yield on mortgage-backed securities of 19 basis points from 2.01% to 2.20% for the nine months ended December 31, 2014.



## Interest Expense

Interest expense increased \$34 thousand, or 3.5%, to \$1.0 million for the three months ended December 31, 2014, and \$31 thousand, or 1.0%, to \$3.0 million for the nine months ended December 31, 2014, as an increase in interest expense on deposits was partially offset by a decrease in interest expense on borrowed funds, as the Bank grew deposits and reduced borrowings.

## Provision for Loan Losses and Asset Quality

The Bank maintains an ALLL that management believes is adequate to absorb inherent and probable losses in its loan portfolio. The adequacy of the ALLL is determined by management's continuous review of the Bank's loan portfolio, including the identification and review of individual problem situations that may affect a borrower's ability to repay. Management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral, current charge-offs and other factors that may affect the portfolio, including a review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio. The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. Any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans.

The Bank's provision for loan loss methodology is consistent with the Interagency Policy Statement on the Allowance for Loan and Lease Losses (the "Interagency Policy Statement") released by the OCC on December 13, 2006. For additional information regarding the Bank's ALLL policy, refer to Note 2 of Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies" included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

The following table summarizes the activity in the ALLL for the nine month periods ended December 31, 2014 and 2013 and the fiscal year-end March 31, 2014:

\$ in thousands	Nine Months Ended December 31, 2014	Fiscal Year Ended March 31, 2014	Nine Months Ended December 31, 2013
Beginning Balance	\$7,233	\$10,989	\$10,989
Less: Charge-offs	195	4,540	2,874
Add: Recoveries	1,487	1,210	1,026
Recovery of Loan Losses	(2,645)	(426)	(726)
Ending Balance	\$5,880	\$7,233	\$8,415

## Ratios:

Net charge-offs (recoveries) to average loans outstanding	(0.32)	)%	0.86	%	0.49	%
Allowance to total loans	1.35	%	1.85	%	2.14	%
Allowance to non-performing loans	68.78	%	57.59	%	56.39	%

The Company recorded a \$1.2 million recovery of loan losses for the three months ended December 31, 2014, compared to a \$1.1 million recovery for the prior year period. Net recoveries of \$434 thousand were recognized, compared to \$68 thousand in the prior year quarter. For the nine months ended December 31, 2014, the Company recorded a \$2.6 million recovery of loan losses, compared to \$726 thousand for the prior year period. Net recoveries of \$1.3 million were recognized for the nine month period, compared to net charge-offs of \$1.8 million in the prior year period. The improvement in both periods was primarily due to recoveries of previously charged-off loans in the current period and decreases in historic loan loss rates.

At December 31, 2014, nonaccrual loans totaled \$8.5 million, or 1.3% of total assets compared to \$12.6 million or 2.0% of total assets at March 31, 2014. The ALLL was \$5.9 million at December 31, 2014, which represents a ratio of the ALLL to nonaccrual loans of 68.8% compared to \$7.2 million at March 31, 2014 which represents a ratio of 57.6%. The ratio of the ALLL to total loans was 1.4% at December 31, 2014, a decrease from 1.9% at March 31, 2014.

#### Non-performing Assets

Non-performing assets consist of nonaccrual loans, loans held-for-sale and property acquired in settlement of loans, including foreclosure. When a borrower fails to make a payment on a loan, the Bank and/or its loan servicers take prompt steps to have the delinquency cured and the loan restored to current status. This includes a series of actions such as phone calls, letters, customer visits and, if necessary, legal action. In the event the loan has a guarantee, the Bank may seek to recover on the guarantee,

including, where applicable, from the SBA. Loans that remain delinquent are reviewed for reserve provisions and charge-off. The Bank's collection efforts continue after the loan is charged off, except when a determination is made that collection efforts have been exhausted or are not productive.

The Bank may from time to time agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). Loans modified in a TDR are placed on nonaccrual status until the Bank determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for a minimum of six months. At December 31, 2014, loans classified as TDR totaled \$8.4 million, of which \$4.7 million were classified as performing. At March 31, 2014, loans classified as TDR totaled \$9.2 million, of which \$6.3 million were classified as performing.

At December 31, 2014, non-performing assets totaled \$15.1 million, or 2.3% of total assets compared to \$18.9 million, or 3.0% of total assets at March 31, 2014.

The following table sets forth information with respect to the Bank's non-performing assets at the dates indicated:  
Non Performing Assets

\$ in thousands	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	
Loans accounted for on a nonaccrual basis <sup>(1)</sup> :						
Gross loans receivable:						
One-to-four family	\$3,089	\$2,636	\$2,651	\$2,301	\$3,736	
Multifamily	1,053	1,054	671	2,240	1,363	
Commercial real estate	2,850	2,991	3,979	7,024	8,702	
Business	1,550	1,395	818	993	1,120	
Consumer	7	10	5	1	1	
Total nonaccrual loans	8,549	8,086	8,124	12,559	14,922	
Other non-performing assets <sup>(2)</sup> :						
Real estate owned	3,934	4,122	4,124	1,369	1,423	
Loans held-for-sale	2,606	2,606	2,611	5,011	7,678	
Total other non-performing assets	6,540	6,728	6,735	6,380	9,101	
Total non-performing assets <sup>(3)</sup>	\$15,089	\$14,814	\$14,859	\$18,939	\$24,023	
Accruing loans contractually past maturity > 90 days <sup>(4)</sup>	6	4,972	—	—	42	
Non-performing loans to total loans	1.96	% 1.97	% 2.08	% 3.22	% 3.80	%
Non-performing assets to total assets	2.34	% 2.30	% 2.31	% 2.96	% 3.76	%
Allowance to total loans	1.35	% 1.61	% 1.81	% 1.85	% 2.14	%
Allowance to non-performing loans	68.78	% 81.59	% 86.98	% 57.59	% 56.39	%

<sup>(1)</sup> Nonaccrual status denotes any loan where the delinquency exceeds 90 days past due and in the opinion of management, the collection of contractual interest and/or principal is doubtful. Payments received on a nonaccrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on assessment of the ability to collect on the loan.

<sup>(2)</sup> Other non-performing assets generally represent loans that the Bank is in the process of selling and has designated held-for-sale or property acquired by the Bank in settlement of loans less costs to sell (i.e., through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value.

(3) Troubled debt restructured loans performing in accordance with their modified terms for less than six months and those not performing in accordance with their modified terms are considered nonaccrual and are included in the nonaccrual category in the table above. At December 31, 2014, there were \$4.7 million TDR loans that have performed in accordance with their modified terms for a period of at least six months. These loans are generally considered performing loans and are not presented in the table above.

(4) Loans 90 days or more past maturity and still accruing, which were not included in the non-performing category, are presented in the above table.

#### Subprime Loans

In the past, the Bank originated or purchased a limited amount of subprime loans (which are defined by the Bank as those loans where the borrowers have FICO scores of 660 or less). At December 31, 2014, the Bank had \$9.4 million in subprime loans, or 2.3% of its total loan portfolio, of which \$1.3 million are non-performing loans.

### Non-Interest Income

Non-interest income increased \$198 thousand, or 16.4%, to \$1.4 million for the three months ended December 31, 2014, compared to \$1.2 million for the prior year quarter. The increase was primarily attributed to higher loan fees during the quarter driven by prepayment fees on commercial real estate loans. Further, a gain on sale of real estate owned of \$41 thousand was recognized for the current quarter, compared to a loss of \$149 thousand in the prior year quarter.

For the nine months ended December 31, 2014, non-interest income decreased \$743 thousand, or 15.1%, to \$4.2 million, compared to \$4.9 million in the prior year period. Non-interest income in the prior year period included gains on sales of loans and securities of \$768 thousand and \$507 thousand, respectively, as the Bank disposed of non-performing loans and repositioned its investment portfolio. Other non-interest income for the current nine month period included a \$323 thousand grant from the Community Development Financial Institutions Fund of the U.S. Treasury Department.

### Non-Interest Expense

Non-interest expense decreased \$1.5 million, or 17.7%, to \$6.8 million for the three months ended December 31, 2014, compared to \$8.3 million for the prior year quarter. The decrease was primarily attributed to higher employee compensation and benefit expense in the prior year quarter associated with the termination of the Company's pension plan and the recognition of the full expense during the prior year period.

For the nine months ended December 31, 2014, non-interest expense remained relatively unchanged at \$20.1 million, decreasing \$43 thousand, or 0.2%, from the prior year period due to lower data processing costs following the change in core technology platform, and lower federal deposit insurance premiums, partially offset by an increase in the reserves for losses associated with the repurchase of mortgage loans sold by the Bank to Fannie Mae and higher consulting fees. Employee compensation and benefits expense was lower for the nine months ended December 31, 2014 largely due to the expense associated with terminating the Company's pension plan recognized in the prior year period, which was mostly offset by increases in salaries and benefits related to adding additional lending staff and the associated support personnel.

### Income Tax Expense

Income tax expense was \$62 thousand for the three months ended December 31, 2014, compared to \$6 thousand for the prior year quarter. For the nine months ended December 31, 2014, income tax expense was \$135 thousand, compared to \$94 thousand in the prior year period.

### Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. As of December 31, 2014, the Company's management, including the Company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting Officer), has evaluated the effectiveness of the

Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report.

Based on the foregoing evaluation, and in light of the identified material weakness disclosed in our Annual Report on Form 10-K for the year ended March 31, 2014 filed July 15, 2014, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2014. The material weakness in internal control over financial reporting related to the ongoing monitoring and evaluation of the design and conduct of internal controls associated with infrequent process activities, including reporting related to the Company's pension plan activities.

(b) Remediation Plan

With the oversight of senior management and our finance and audit committee, we are currently developing and implementing additional policies, improved processes, documented procedures and training related to infrequent processes in

order to remediate the underlying causes of the material weakness.

Our initial estimate was that our remediation plan would be implemented by September 30, 2014. However, certain elements of the plan, including staffing and training, were not fully implemented by that date. Accordingly, we expect the remediation plan to be fully implemented by March 31, 2015.

In addition, the effectiveness of new or revised processes and procedures cannot be evaluated until we have operated under such processes and procedures for at least one full fiscal reporting period. We expect to conduct a complete evaluation of the effectiveness of our remediation plan as of the fiscal year ending March 31, 2015.

(c) Changes in Internal Control over Financial Reporting

Other than the remediation plan discussed above, there have not been any changes in the Company's internal control over financial reporting during the fiscal quarter to which this report relates, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, the Company and the Bank or one of its wholly owned subsidiaries are parties to various legal proceedings incident to their business. Certain claims, suits, complaints and investigations (collectively “proceedings”) involving the Company, the Bank or a subsidiary, arising in the ordinary course of business, have been filed or are pending. The Company is unable at this time to determine the ultimate outcome of each proceeding, but believes, after discussions with legal counsel representing the Company, the Bank or the subsidiary in these proceedings, that it has meritorious defenses to each proceeding and appropriate measures have been taken to defend the interests of the Company, Bank or subsidiary. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank. Further, there have been no material developments or changes associated with any litigation matters previously reported by the Company or the Bank. In accordance with ASC Topic 450, Carver has accrued \$45,000 for these lawsuits.

### Item 1A. Risk Factors

The Company does not believe its risks have materially changed from those included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) No unregistered securities were sold by the Company during the quarter ended December 31, 2014.

(b) Not applicable.



(c) The Company did not repurchase any of its securities during the quarter ended December 31, 2014.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are submitted with this report:

- 3.1 Certificate of Incorporation of Carver Bancorp, Inc. <sup>(1)</sup>
  - 3.2 Certificate of Amendment to the Certificate of Incorporation of Carver Bancorp, Inc. <sup>(2)</sup>
  - 3.3 Second Amended and Restated Bylaws of Carver Bancorp, Inc. <sup>(3)</sup>
  - 4.1 Stock Certificate of Carver Bancorp, Inc. <sup>(1)</sup>
  - 4.2 Certificate of Designations of Mandatorily Convertible Non-Voting Participating Preferred Stock, Series C, and Convertible Non-Cumulative Non-Voting Participating Preferred Stock, Series D <sup>(4)</sup>
  - 4.3 Form of Stockholder Rights Agreement, dated June 29, 2011, by and between the Company and certain purchasers <sup>(4)</sup>
  - 4.4 Exchange Agreement, dated June 29, 2011, by and between the Company and the United States Department of the Treasury <sup>(4)</sup>
  - 11 Statement Regarding Computation of Per Share Earnings
  - 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
  - 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)
  - 32.1 Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350
  - 32.2 Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2014, formatted in XBRL (Extensive Business Reporting Language): (i) Consolidated Statements of Financial Condition as of December 31, 2014 (unaudited) and March 31, 2014; (ii) Consolidated Statements of Operations for the three and nine months ended December 31, 2014 and 2013 (unaudited); (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended December 31, 2014 and 2013 (unaudited); (iv) Consolidated Statements of Changes in Equity for the nine months ended December 31, 2014 (unaudited); (v) Consolidated Statements of Cash Flows for the nine months ended December 31, 2014 and 2013 (unaudited); and (vi) Notes to Consolidated Financial Statements.

(1) Incorporated herein by reference from the Exhibits to the Form S-4, Registration Statement and amendments thereto, initially filed on June 7, 1996, Registration No. 333-5559.

(2) Incorporated herein by reference from the Exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2011.

(3)

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Incorporated herein by reference from the Exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

- (4) Incorporated by reference to the Exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 6, 2011.

43

---

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.

CARVER BANCORP, INC.

Date: February 9, 2015

/s/ Michael T. Pugh  
Michael T. Pugh  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: February 9, 2015

/s/ David L. Toner  
David L. Toner  
First Senior Vice President and Chief Financial Officer  
(Principal Accounting Officer and Principal Financial Officer)