CARVER BANCORP INC
Form 10-Q
February 14, 2013

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

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

For the quarterly period ended December 31, 2012
OR

o 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.
þ Yes o 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).
þ Yes oNo

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):
o Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer x Smaller Reporting Company

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

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

Common Stock, par value $0.01	3,695,320
Class	Outstanding at February 14, 2013

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PART I. FINANCIAL INFORMATION

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

$ in thousands except per share data	December 31, 2012 (unaudited)	March 31, 2012
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$114,292	$89,872
Money market investments	7,558	1,825
Total cash and cash equivalents	121,850	91,697
Restricted cash	6,416	6,415
Investment securities:		
Available-for-sale, at fair value	109,936	85,106
Held-to-maturity, at amortized cost (fair value of $10,191 and $11,774 at December 31, 2012 and March 31, 2012, respectively)	9,565	11,081
Total investments	119,501	96,187
Loans held-for-sale (“HFS”)	18,991	29,626
Loans receivable:		
Real estate mortgage loans	330,655	367,611
Commercial business loans	33,535	43,989
Consumer loans	264	1,258
Loans, net	364,454	412,858
Allowance for loan losses	(14,483)	(19,821)
Total loans receivable, net	349,971	393,037
Premises and equipment, net	8,885	9,573
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	3,368	2,168
Accrued interest receivable	2,359	2,256
Other assets	9,297	10,271
Total assets	$640,638	$641,230
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Deposits:		
Savings	$96,226	$101,079
Non-Interest Bearing Checking	61,676	67,202
NOW	25,044	28,325
Money Market	113,417	109,404
Certificates of Deposit	205,286	226,587
Total deposits	501,649	532,597
Advances from the FHLB-NY and other borrowed money	73,403	43,429
Other liabilities	9,986	8,585
Total liabilities	$585,038	$584,611
Stockholders’ equity:		
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

Common stock (par value $0.01 per share: 10,000,000 shares authorized; 3,697,264 issued; 3,695,320 and 3,695,174 shares outstanding at December 31, 2012 and March 31, 2012, respectively)		
Additional paid-in capital	55,574	54,068
Accumulated deficit	(45,125)	(45,091)
Non-controlling interest	95	2,751
Treasury stock, at cost (1,944 shares at December 31, 2012 and 2,090 and March 31, 2012, respectively).	(417)	(447)
Accumulated other comprehensive income	294	159
Total stockholders' equity	55,600	56,619
Total liabilities and stockholders equity	$640,638	$641,230

See accompanying notes to consolidated financial statements

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

$ in thousands	Three Months Ended December 31, 2012	2011	Nine Months Ended December 31, 2012	2011
Interest Income:				
Loans	$5,325	$6,416	$16,398	$20,076
Mortgage-backed securities	215	279	783	1,018
Investment securities	349	114	857	340
Money market investments	38	102	156	151
Total interest income	5,927	6,911	18,194	21,585
Interest expense:				
Deposits	868	1,069	2,750	3,012
Advances and other borrowed money	342	785	1,033	2,560
Total interest expense	1,210	1,854	3,783	5,572
Net interest income	4,717	5,057	14,411	16,013
(Release) provision for loan losses	(398)	113	386	12,290
Net interest income after provision for loan losses	5,115	4,944	14,025	3,723
Non-interest income:				
Depository fees and charges	964	740	2,652	2,212
Loan fees and service charges	170	203	565	689
Loss on REO, net	—	(91)	(288)	(216)
Gain on sale of securities, net	60	—	60	
Gain on sales of loans, net	1,109	19	1,714	154
New Market Tax Credit (“NMTC”) fees	—	—	625	—
Lower of cost or market adjustment on loans held for sale	—	(530)	—	(905)
Other	238	212	587	539
Total non-interest income	2,541	553	5,915	2,473
Non-interest expense:				
Employee compensation and benefits	2,819	3,006	8,243	9,188
Net occupancy expense	910	903	2,684	2,805
Equipment, net	314	329	889	1,029
Data processing	326	216	842	596
Consulting fees	63	165	243	370
Federal deposit insurance premiums	320	369	994	1,177
Other	2,552	2,788	6,933	7,531
Total non-interest expense	7,304	7,776	20,828	22,696
Gain/(Loss) before income taxes	352	(2,279)	(888)	(16,500)
Income tax expense (benefit)	68	(1,004)	264	(927)
Net income/(loss) before attribution of noncontrolling interest	284	(1,275)	(1,152)	(15,573)
Non Controlling interest, net of taxes	(190)	(595)	(1,126)	687
Net income/(loss)	$474	$(680)	$(26)	$(16,260)
Other comprehensive income (loss), net of tax:				
Change in unrealized gain/loss of securities available for sale	135	203	437	298
Change in pension obligations	—	—	(302)	—
Total other comprehensive income (loss), net of tax	135	203	135	298

Total comprehensive income (loss), net of tax	$609	$(477)	$109	$(15,962)
Earnings/(loss) per common share:				
Basic	$0.13	$(0.26)	$(0.01)	$(16.81)
Diluted	$0.13	N/A	N/A	N/A

See accompanying notes to consolidated financial statements

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the nine months ended December 31, 2012
(Unaudited)

$ in thousands	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Non-controlling interest	Accumulated deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance—March 31, 2012	$45,118	$61	$ 54,068	$(447)	$ 2,751	$ (45,091)	$ 159	$ 56,619
Net loss	—	—	—	—	—	(26)	—	(26)
Other comprehensive income, net of taxes	—	—	—	—	—	—	135	135
Transfer between Non Controlling and Controlling Interest	—	—	1,530	—	(1,530)	—	—	—
Loss attributable to non controlling interest	—	—	—	—	(1,126)	—	—	(1,126)
Treasury stock activity	—	—	(24)	30	—	(8)	—	(2)
Balance— December 31, 2012	$45,118	$61	$ 55,574	$(417)	$ 95	$ (45,125)	$ 294	$ 55,600

See accompanying notes to consolidated financial statements.

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

$ in thousands	Nine Months Ended December 31, 2012	2011
OPERATING ACTIVITIES		
Net loss before attribution of noncontrolling interests	$(1,152)	$(15,573)
Noncontrolling interest, net of taxes	(1,126)	687
Net loss	(26)	(16,260)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	386	12,290
Stock based compensation expense	—	54
Depreciation and amortization expense	844	1,060
Amortization of intangibles	—	76
Loss on real estate owned	288	216
Gain on sale of securities, net	(60)	—
Gain on sale of loans, net	(1,714)	(154)
Market adjustment on held for sale loans	—	905
Proceeds from sale of loans held-for-sale	20,576	26,102
Assets repurchased from third parties	(1,952)	—
(Increase) decrease in accrued interest receivable	(103)	500
Amortization and accretion of loan premiums and discounts and deferred charges	(308)	(210)
Amortization and accretion of premiums and discounts — securities	723	327
Decrease (increase) in other assets	2,125	(432)
Increase in other liabilities	83	1,047
Net cash provided by operating activities	20,862	25,521
INVESTING ACTIVITIES		
Purchases of securities: Available-for-sale	(53,855)	(19,625)
Proceeds from principal payments, maturities, calls and sales of securities: Available-for-sale	28,767	17,675
Proceeds from principal payments, maturities and calls of securities: Held-to-maturity	1,488	6,074
Originations of loans held-for-investment	(17,366)	(19,343)
Principal collections on loans	50,674	80,285
Proceeds on sale of loans	1,718	2,258
Increase in restricted cash	—	(6,415)
(Purchase)/redemption of FHLB-NY stock	(1,200)	(616)
Purchase of premises and equipment	(156)	(140)
Proceeds from sale of real estate owned	195	563
Net cash (used in) provided by investing activities	10,265	60,716
FINANCING ACTIVITIES		
Net decrease in deposits	(30,948)	(75,503)
Net increase in FHLB-NY advances and other borrowings	29,974	796
Capital raise	—	51,432
Dividends paid	—	(364)
Net cash used in financing activities	(974)	(23,639)
Net (decrease) increase in cash and cash equivalents	30,153	62,598
Cash and cash equivalents at beginning of period	91,697	44,077

Cash and cash equivalents at end of period	$121,850	$106,675
Supplemental information:		
Noncash Transfers-		
Change in unrealized loss on valuation of available-for-sale investments, net	$162	$349
Transfers from loans held-for-investment to loans held-for-sale	$8,884	$40,222
Cash paid for-		
Interest	$3,480	$5,851
Income taxes	$49	$808

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 subsidiaries are Carver Federal Savings Bank (the “Bank” or “Carver Federal”) and Alhambra Holding Corp, an inactive Delaware corporation. Carver Federal's wholly-owned subsidiaries are CFSB Realty Corp., Carver Community Development Corp. (“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 2,314,275 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 10, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (“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 Orders passed to the Board of Governors of the Federal Reserve System and 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 on June 30, 2011 to make a capital injection of $37 million in the Bank. 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 down-stream 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.

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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., Carver Community Development Corporation, 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”). 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 March 31, 2012 Annual Report to Stockholders on Form 10-K. 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 write-downs 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 Office of the Comptroller of the Currency (“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 write-downs of real estate owned based on their judgments about information available to them at the time of their examination.

Investment Securities

When purchased, investment securities are designated as either investment securities held-to-maturity, available-for-sale or trading.

Securities are classified as held-to-maturity and carried at amortized cost only if the Bank has a positive intent and ability to hold such securities to maturity. Securities held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using the level-yield method over the remaining period until maturity.
If not classified as held-to-maturity, securities are classified as available-for-sale based upon management's ability to sell in response to actual or anticipated changes in interest rates, resulting prepayment risk or any other factors. Available-for-sale securities are reported at fair value. Estimated fair values of securities are based on either published or security dealers' market value if available. If quoted or dealer prices are not available, fair value is estimated using quoted or dealer prices for similar securities.

Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in earnings.

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized holding loss. Unrealized holding gains or losses for securities available-for-sale are excluded from earnings and reported net of deferred income taxes in accumulated other comprehensive income (loss), a component of the Statement of Operations and Comprehensive Income/Loss and a component of the Statement of Changes in Stockholders Equity. Following Financial Accounting Standards Board "FASB" guidance, 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 entity 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.

During fiscal 2013 and fiscal 2012, no impairment charges were recorded. Gains or losses on sales of securities of all classifications are recognized based on the specific identification method.

Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or market value. 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 note sales since March 31, 2011.

Loans Receivable

Loans receivable are carried at unpaid principal balances plus unamortized premiums, purchase accounting mark-to-market adjustments, certain deferred direct loan origination costs and deferred loan origination fees and discounts, less the allowance for loan losses and charge offs.

The Bank defers loan origination fees and certain direct loan origination costs and amortizes or accretes such amounts as an adjustment of yield over the contractual lives of the related loans using methodologies which approximate the interest method. Premiums and discounts on loans purchased are amortized or accreted as an adjustment of yield over the contractual lives, of the related loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.

Loans are placed on non-accrual status when they are past due 90 days or more as to contractual obligations or when other circumstances indicate that collection is not probable. When a loan is placed on non-accrual status, any interest accrued but not received is reversed against interest income. Payments received on a non-accrual loan are either applied to protective advances, the outstanding principal balance or recorded as interest income, depending on an assessment of the ability to collect the loan. A non-accrual loan is restored to accrual status when principal and interest payments become less than 90 days past due and its future collectability is reasonably assured.

The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. Collateral dependent impaired loans are assessed individually to determine if the loan's current estimated fair value of the property that collateralizes the impaired loan, if any, less costs to sell the property, is less than the recorded investment in the loan. Cash flow dependent loans are assessed individually to determine if the present value of the expected future cash flows is less than the recorded investment in the loan. Smaller balance homogeneous loans are evaluated for impairment collectively unless they are modified in a troubled debt restructuring. Such loans primarily include one-to four family residential mortgage loans and consumer loans.

Allowance for Loan and Lease Losses (“ALLL”)

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 Accounting Standards Codification (“ASC”) Topic 450 and ASC Topic 310. Compliance with the Interagency Policy Statement includes management's review of the Bank's loan portfolio, including the identification and review of 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. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio. Any change in circumstances considered by management to develop the ALLL could necessitate a change to the ALLL, including a change to the loan portfolio, such as a decline in credit quality or an increase in potential problem loans.

General Reserve Allowance

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

- 1-4 Family
- Construction

- Multifamily
- Commercial Real Estate
- 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
- Loss

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 comprised of actual losses for the most recent four quarters as a percentage of each respective Loan Type plus 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-offs, 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 Topic 310 guidelines. The amount assigned to the specific reserve allowance is individually-determined based upon the loan. The ASC Topic 310 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 Topic 310 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 Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Topic 310, Accounting by Creditors for Impairment of a Loan. 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 to 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 & Classified loans to be evaluated collectively for impairment. Loans determined to be impaired are then evaluated to determine the measure of impairment amount based on one of the three measurement methods noted above. If it is determined that there is an impairment amount, the Bank then determines whether the impairment amount is permanent (that is a confirmed loss), 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

Troubled debt restructured loans (“TDR”) 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, 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 Company records an impairment charge 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 Company records an impairment 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 non-accrual status until they have performed in accordance with the restructured terms for a period of at least 6 months.

NOTE 3. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Earnings/(loss) per common share				
Net income/(loss)	$474	$(680)	$(26)	$(16,260)
Less: Capital Purchase Program "CPP" Preferred Dividends	—	—	—	288
Net income/(loss) available to common shareholders	$474	$(680)	$(26)	$(16,548)
Weighted average common shares outstanding	3,695,653	2,621,340	3,695,616	984,348
Basic earnings/(loss) per common share	$0.13	$(0.26)	$(0.01)	$(16.81)
Diluted earnings per common share	$0.13	N/A	N/A	N/A

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 Orders, the Bank and Company are also prohibited from paying any dividends without prior regulatory approval, and, as such, suspended the regularly quarterly cash dividend payments on the Company's Series B preferred stock issued under the Trouble Asset Relief Program Capital Purchase Program (“TARP CPP”) to the United States Department of Treasury (“Treasury”). 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 before the regulators precluded future payments without prior approval. These payments remain on deferral status.

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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.
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 Stockholder's equity. 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. 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 320-942 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At December 31, 2012, the Bank had no securities classified as trading. At December 31, 2012, $109.9 million, or 92.0%, of the Bank’s mortgage-backed and other investment securities, were classified as available-for-sale. The remaining $9.6 million, or 8.0%, were classified as held-to-maturity.
The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at December 31, 2012:

$ in thousands	Amortized	Gross Unrealized		
	Cost	Gains	Losses	Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$23,019	168	(182)	23,005
Federal Home Loan Mortgage Corporation	6,813	107	—	6,920
Federal National Mortgage Association	4,669	136	—	4,805
Other	50	—	—	50
Total mortgage-backed securities	34,551	411	(182)	34,780
U.S. Government Agency Securities	41,983	309	(42)	42,250
U.S. Government Securities	2,800	2	—	2,802
Corporates Bonds	1,911	111	—	2,022
Asset-backed Securities	15,252	97	—	15,349
Small Business Association	1,940	39	—	1,979
Other	10,691	63	—	10,754
Total available-for-sale	109,128	1,032	(224)	109,936
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	5,660	429	—	6,089
Federal Home Loan Mortgage Corporation	2,479	114	—	2,593
Federal National Mortgage Association	1,426	83	—	1,509
Total held-to-maturity mortgage-backed securities	9,565	626	—	10,191
Total securities	$118,693	$1,658	$(224)	$120,127

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2012:

$ in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$31,100	$269	$(23)	$31,346
Federal Home Loan Mortgage Corporation	7,468	8	(1)	7,475
Federal National Mortgage Association	7,214	50	(1)	7,263
Total mortgage-backed securities	45,782	327	(25)	46,084
U.S. Government Agency Securities	23,176	91	(63)	23,204
U.S. Government Securities	3,356	6	(1)	3,361
Corporate Bonds	1,890	58	—	1,948
Other	10,536	—	(27)	10,509
Total available-for-sale	84,740	482	(116)	85,106
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	6,659	473	—	7,132
Federal Home Loan Mortgage Corporation	2,794	134	—	2,928
Federal National Mortgage Association	1,628	86	—	1,714
Total held-to-maturity mortgage-backed securities	11,081	693	—	11,774
Total securities	$95,821	$1,175	$(116)	$96,880

The following table sets forth the unrealized losses and fair value of securities at December 31, 2012 for less than 12 months and 12 months or longer:

$ in thousands	Less than 12 months Unrealized Losses	Less than 12 months Fair Value	12 months or longer Unrealized Losses	12 months or longer Fair Value	Total Unrealized Losses	Total Fair Value
Available-for-Sale:						
Mortgage-backed securities	$(88)	$7,720	$(94)	$7,090	$(182)	$14,810
U.S. Government Agency Securities	(42)	4,956	—	—	(42)	4,956
U.S. Government Securities	—	1,250	—	—	—	1,250
Total available-for-sale securities	(130)	13,926	(94)	7,090	(224)	21,016

The following table sets forth the unrealized losses and fair value of securities at March 31, 2012 for less than 12 months and 12 months or longer:

$ in thousands	Less than 12 months Unrealized Losses	Less than 12 months Fair Value	12 months or longer Unrealized Losses	12 months or longer Fair Value	Total Unrealized Losses	Total Fair Value
Available-for-Sale:						
Mortgage-backed securities	$(25)	$13,699	$—	$—	$(25)	$13,699
U.S. Government Agency Securities	(63)	9,917	—	—	(63)	9,917
U.S. Government Securities	(1)	1,555	—	—	(1)	1,555
Others	(27)	9,973	—	—	(27)	9,973
Total available-for-sale securities	(116)	35,144	—	—	(116)	35,144

A total of 6 securities had an unrealized loss at December 31, 2012 compared to 14 at March 31, 2012. The majority of the securities in an unrealized loss position were mortgage-backed securities, U.S. Government Agency securities, and U.S. Treasury securities, representing 36.7%, 23.6% and 6% of total securities in an unrealized loss position that had an unrealized loss for less than 12 months at December 31, 2012. Two mortgage-backed securities representing 33.7% of those securities in an unrealized loss position had an unrealized loss for more than 12 months at December 31, 2012.

Given the U.S. government's guarantees of the mortgage-backed and agency securities and U.S. Treasury Notes, there is no reason to believe that these securities will experience permanent impairment. Management believes that these unrealized losses are a direct result of the current rate environment and will recover as the economic conditions improve.

For the quarter ended December 31, 2012, there were two Government National Mortgage Association securities that were impaired for more than 12 months. Management believes that these securities impairments are due to interest rate cycles and that the Bank intends to keep the securities in the portfolio for the foreseeable future. Given the Bank's ample liquidity, the bank also has the ability to hold these securities in the portfolio.

Following FASB guidance, 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 entity will not be required to sell the security prior to the recovery of the non-credit 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 income. At December 31, 2012, the Bank does not have any securities that may be 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, 2012, 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	
Available-for-Sale:				
Less than one year	$5,799	$5,802	0.35	%
One through five years	6,895	7,058	1.90	%
Five through ten years	29,313	29,456	1.54	%
After ten years	67,121	67,620	1.36	%
Total	109,128	109,936	1.39	%
Held-to-maturity:				
Five through ten years	191	199	3.91	%
After ten years	9,374	9,992	4.00	%
Total	$9,565	$10,191	4.00	%

NOTE 6. 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) & Consumer and Other Loans.

The Allowance for Loan and Lease Losses (“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. For further details on the ALLL, please reference Note 2 "Summary of Significant Accounting Policies."

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, 2012 and March 31, 2012.

$ in thousands	December 31, 2012			March 31, 2012		
	Amount	Percent		Amount	Percent	
Gross loans receivable:						
One- to four-family	$61,953	16.92	%	$66,313	15.99	%
Multifamily	66,982	18.29	%	78,859	19.01	%
Commercial real estate	201,728	55.09	%	207,505	50.02	%
Construction	1,228	0.34	%	16,471	3.97	%
Business	34,021	9.29	%	44,424	10.71	%
Consumer and other [1]	264	0.07	%	1,258	0.30	%
Total loans receivable	$366,176	100.00	%	$414,830	100.00	%
Add:						
Premium on loans	141			137		
Less:						
Deferred fees and loan discounts	(1,863)			(2,109)		
Allowance for loan losses	(14,483)			(19,821)		
Total loans receivable, net	$349,971			$393,037		
Loans held-for-sale	$18,991			$29,626		

[1] Includes personal loans

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the nine month period ended December 31, 2012.

$ in thousands	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Total
Allowance for loan losses:							
Beginning Balance	$4,305	$ 5,409	$6,709	$1,532	$1,786	$80	$19,821
Charge-offs	2,103	226	1,149	151	2,152	3	5,784
Recoveries	—	—	—	22	34	4	60
Provision for Loan Losses	2,394	(4,155)	(921)	(1,403)	4,521	(50)	386
Ending Balance	$4,596	$ 1,028	$4,639	$—	$4,189	$31	$14,483
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	4,217	1,028	4,182	—	2,368	31	11,826
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	379	—	457	—	1,821	—	2,657

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the nine month period ended December 31, 2012.

Loan Receivables
Ending Balance