CARVER BANCORP INC
Form 10-Q
November 12, 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 September 30, 2013

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.

Class	Outstanding at November 8, 2013
Common Stock, par value $0.01	3,695,892

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PART I. FINANCIAL INFORMATION

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

$ in thousands except per share data	September 30, 2013 (unaudited)	March 31, 2013
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$95,841	$98,083
Money market investments	10,001	6,563
Total cash and cash equivalents	105,842	104,646
Restricted cash	6,556	10,666
Investment securities:		
Available-for-sale, at fair value	87,222	116,051
Held-to-maturity, at amortized cost (fair value of $12,542 and $9,629 at September 30, 2013 and March 31, 2013, respectively)	12,419	9,043
Total investments	99,641	125,094
Loans held-for-sale (“HFS”)	7,854	13,107
Loans receivable:		
Real estate mortgage loans	369,083	334,594
Commercial business loans	29,765	35,281
Consumer loans	193	247
Loans, net	399,041	370,122
Allowance for loan losses	(9,399)	(10,989)
Total loans receivable, net	389,642	359,133
Premises and equipment, net	8,243	8,597
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	4,226	3,503
Accrued interest receivable	2,530	2,247
Other assets	10,280	11,284
Total assets	$634,814	$638,277
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES:		
Deposits:		
Savings	$95,435	$98,066
Non-interest bearing checking	54,839	58,239
NOW	25,962	25,927
Money market	115,484	113,259
Certificates of deposit	187,738	200,225
Total deposits	479,458	495,716
Advances from the FHLB-NY and other borrowed money	95,403	76,403
Other liabilities	8,195	9,423
Total liabilities	583,056	581,542
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

Common stock (par value $0.01 per share: 10,000,000 shares authorized; 3,697,836 and 3,697,364 issued; 3,695,892 and 3,695,420 shares outstanding at September 30, 2013 and March 31, 2013, respectively)	61	61
Additional paid-in capital	55,980	55,708
Accumulated deficit	(43,685)	(44,439)
Non-controlling interest	57	141
Treasury stock, at cost (1,944 shares at September 30, 2013 and March 31, 2013)	(417)	(417)
Accumulated other comprehensive (loss)/income	(5,356)	563
Total stockholders' equity	51,758	56,735
Total liabilities and stockholders equity	$634,814	$638,277

See accompanying notes to consolidated financial statements

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

($ in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Loans	$5,263	$5,486	$10,178	$11,074
Mortgage-backed securities	285	275	548	569
Investment securities	348	307	696	507
Money market investments	46	49	89	118
Total interest income	5,942	6,117	11,511	12,268
Interest expense:				
Deposits	687	906	1,384	1,882
Advances and other borrowed money	290	347	603	691
Total interest expense	977	1,253	1,987	2,573
Net interest income	4,965	4,864	9,524	9,695
Provision for loan losses	(505)	560	326	784
Net interest income after provision for loan losses	5,470	4,304	9,198	8,911
Non-interest income:				
Depository fees and charges	878	892	1,790	1,688
Loan fees and service charges	305	195	603	395
Gain on sale of securities	208	—	486	—
Gain on sales of loans, net	180	569	670	604
Loss on sale of real estate owned	(84)	—	(131)	(288)
New Market Tax Credit ("NMTC") fees	—	625	—	625
Lower of cost or market adjustment on loans held-for-sale	(163)	—	(232)	—
Other	253	153	520	350
Total non-interest income	1,577	2,434	3,706	3,374
Non-interest expense:				
Employee compensation and benefits	2,646	2,704	5,014	5,424
Net occupancy expense	876	916	1,747	1,774
Equipment, net	209	287	384	575
Data processing	226	322	582	516
Consulting fees	92	113	212	180
Federal deposit insurance premiums	307	331	616	674
Other	2,243	2,217	3,325	4,381
Total non-interest expense	6,599	6,890	11,880	13,524
Income/(loss) before income taxes	448	(152)	1,024	(1,239)
Income tax expense	16	36	88	196
Consolidated net income/(loss)	432	(188)	936	(1,435)
Less: Net income/(loss) attributable to non-controlling interest	90	(52)	183	(936)
Net income/(loss) attributable to Carver Bancorp, Inc.	$342	$(136)	$753	$(499)

Earnings/(loss) per common share:				
Basic	$0.09	$(0.04)	$0.20	$(0.14)
Diluted	0.09	$(0.04)	0.20	$(0.14)

See accompanying notes to consolidated financial statements

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

($ in thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Six Months Ended September 30, 2013	Six Months Ended September 30, 2012
Net income/(loss) attributable to Carver Bancorp, Inc.	$342	$(136)	$753	$(499)
Other comprehensive income/(loss), net of tax:				
Change in unrealized gain/loss of securities available-for-sale	(932)	390	(4,904)	302
Change in pension obligations	—	—	—	(302)
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax	590	—	1,015	—
Total other comprehensive (loss)/income, net of tax	(1,522)	390	(5,919)	—
Total comprehensive (loss)/income, net of tax attributable to Carver Bancorp, Inc.	$(1,180)	$254	$(5,166)	$(499)

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 six months ended September 30, 2013
(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, 2013	$45,118	$61	$55,708	$(417)	$141	$(44,439)	$563	$56,735
Net income	—	—	—	—	—	753	—	753
Other comprehensive loss, net of taxes	—	—	—	—	—	—	(5,919)	(5,919)
Transfer between non-controlling and controlling Interest	—	—	267	—	(267)	—	—	—
Loss attributable to non-controlling interest	—	—	—	—	183	—	—	183
Treasury stock activity	—	—	5	—	—	1	—	6
Balance — September 30, 2013	$45,118	$61	$55,980	$(417)	$57	$(43,685)	$(5,356)	$51,758

See accompanying notes to consolidated financial statements.

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

	Six Months Ended September 30,	
($ in thousands)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss) before attribution to noncontrolling interests	$936	$(1,435)
Net income/(loss) attributable to noncontrolling interests, net of taxes	183	(936)
Net income/(loss) attributable to Carver Bancorp, Inc.	753	(499)
Adjustments to reconcile net income/(loss) to net cash (used in) provided by operating activities:		
Provision for loan losses	326	784
Stock based compensation expense	1	—
Depreciation and amortization expense	551	551
Loss on real estate owned	131	288
Gain on sale of securities, net	(486)	—
Gain on sale of loans, net	(670)	(604)
Amortization and accretion of loan premiums and discounts and deferred charges	(741)	(162)
Amortization and accretion of premiums and discounts — securities	(435)	574
Market adjustment on held-for-sale loans	232	—
Proceeds from sale of loans held-for-sale	13,621	10,191
Assets repurchased from third parties	(1,485)	—
Increase in accrued interest receivable	(283)	(182)
Decrease (increase) in other assets	183	(269)
(Decrease) increase in other liabilities	(1,044)	1,482
Net cash provided by operating activities	10,654	12,154
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities: Available-for-sale	(30,181)	(51,399)
Proceeds from principal payments, maturities, calls and sales of securities: Available-for-sale	48,892	21,795
Proceeds from principal payments, maturities and calls of securities: Held-to-maturity	1,750	1,022
Originations of loans held-for-investment	(44,993)	(11,645)
Loans purchased from third parties	(54,459)	—
Principal collections on loans	61,885	32,326
Proceeds on sale of loans	242	1,071
Decrease in restricted cash	4,110	—
Purchase of FHLB-NY stock	(723)	(840)
Purchase of premises and equipment	(190)	(62)
Proceeds from sale of real estate owned	1,466	195
Net cash used in investing activities	(12,201)	(7,537)
CASH FLOW FROM FINANCING ACTIVITIES		
Net decrease in deposits	(16,257)	(26,221)
Net increase in FHLB-NY advances and other borrowings	19,000	21,984
Net cash provided by (used in) financing activities	2,743	(4,237)
Net increase in cash and cash equivalents	1,196	380
Cash and cash equivalents at beginning of period	104,646	91,697

Cash and cash equivalents at end of period	$105,842	$92,077
Supplemental cash flow information:		
Noncash financing and investing activities		
Transfers from loans held-for-investment to loans held-for-sale	$7,949	$6,991
Cash paid for-		
Interest	$1,809	$2,348
Income taxes	$—	$29

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 2,314,375 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 (“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 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.

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. 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 six month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ended March 31, 2014. The consolidated balance sheet at September 30, 2013 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 March 31, 2013 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 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 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 writedowns 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 (loss) income, a component of 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 the six months ended September 30, 2013 and for the fiscal year ended March 31, 2013, no other-than-temporary 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 recent loan sales.

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.

If the Bank determines that there is an impairment dollar amount, the Bank next determines whether the amount of impairment is permanent. The amount of impairment determined to be permanent is charged-off within the given fiscal quarter. All other amounts are recorded as a specific valuation allowance ("SVA") reserve. As a guide, barring any other factors of consideration, such as cash collateral, letters of credit and personal guarantees, the amount of the loan and negative escrow in excess of the appraised value, for the fair value of collateral valuation method, is determined to be permanent and charged off. The amount attributable to the expected cost to sell, which may or may not occur, is recorded as a specific valuation allowance. In the event the Bank is using the collateral dependent determination for the dollar amount of impairment and the Bank does not have an accepted appraisal (for example, the Bank may utilize a broker's price opinion), the Bank generally will treat all dollar amounts identified as impaired to be other than a permanent impairment and the full impaired amount will be recorded as a specific valuation allowance. For impairment amounts calculated utilizing the present value of expected future cash flows, the dollar amount of impairment is recorded as a specific valuation allowance.

Limitations related to the fair value estimate of financial instruments

The fair value estimates are made at a discrete point in time based on relevant market information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no quoted market value exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In addition, the fair value estimates are based on existing off-balance sheet financial instruments without attempting to value anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.

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 FASB Accounting Standards Codification (“ASC”) Topics 450 “Disclosure of Certain Loss Contingencies” and 310 “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 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 historical loss factors and 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 Chief Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Topic 310. 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 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, 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 six months.

Representation and Warranty Reserve

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 (GSE's). 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.

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. These reserves are reported in our consolidated statement of financial condition as a component of other liabilities. The calculation of the reserve is based on estimates, which are uncertain, and require the application of judgment. In establishing the reserves, we consider a variety of factors, including those loans that are under review by FNMA that have not yet received a repurchase request. The Bank tracks the FNMA claims monthly and evaluates the reserve on a quarterly basis.

NOTE 3. EARNINGS (LOSS) PER COMMON 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 September 30,		Six Months Ended September 30,	
$ in thousands	2013	2012	2013	2012
Earnings (loss) per common share				
Net income (loss) available to common shareholders of Carver Bancorp, Inc.	$342	$(136)	$753	$(499)
Weighted average common shares outstanding	3,696,179	3,695,653	3,696,072	3,695,597
Basic earnings (loss) per common share	$0.09	$(0.04)	$0.20	$(0.14)
Diluted earnings per common share	$0.09	$(0.04)	$0.20	$(0.14)

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. The expense continues to be accrued and the payments remain on deferral status.

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. OTHER COMPREHENSIVE INCOME (LOSS)

The following table sets forth changes in each component of accumulated other comprehensive income (loss) for the six months ended September 30, 2013:

Six months ended September 30, 2013 $ in thousands	At March 31, 2013	Other Comprehensive Income	At September 30, 2013
Net unrealized gain (loss) on securities available-for-sale	$1,064	$(5,919)	$(4,855)
Net unrealized loss on pension liability	(501)	—	(501)
Accumulated other comprehensive income (loss)	$563	$(5,919)	$(5,356)

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	Amount Reclassified from Accumulated Other Comprehensive Income		
	Three Months Ended September 30, 2013	Six Months Ended September 30, 2013	Affected Line Item in the Consolidated Statement of Operations
Unrealized gains on available-for-sale securities	$590	$1,015	Gain on sales of securities

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 Subtopics 320-942 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At September 30, 2013, $87.2 million, or 87.5%, of the Bank's mortgage-backed and other investment securities were classified as available-for-sale, and the remaining $12.4 million, or 12.5%, were classified as held-to-maturity. The Bank had no securities classified as trading at September 30, 2013.

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at September 30, 2013:

$ in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$6,099	$—	$(161)	$5,938
Federal Home Loan Mortgage Corporation	14,066	6	(475)	13,597
Federal National Mortgage Association	11,388	—	(430)	10,958
Other	49	—	—	49
Total mortgage-backed securities	31,602	6	(1,066)	30,542
U.S. Government Agency Securities	50,490	—	(3,431)	47,059
Other	10,000	—	(379)	9,621
Total available-for-sale	92,092	6	(4,876)	87,222
Held-to-Maturity *:				
Mortgage-backed securities:				
Government National Mortgage Association	4,232	254	—	4,486
Federal Home Loan Mortgage Corporation	1,870	75	—	1,945
Federal National Mortgage Association	6,317	71	(277)	6,111
Total held-to-maturity mortgage-backed securities	12,419	400	(277)	12,542
Total securities	$104,511	$406	$(5,153)	$99,764

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

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The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2013:

$ in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$23,164	$676	$—	$23,840
Federal Home Loan Mortgage Corporation	16,059	104	(104)	16,059
Federal National Mortgage Association	4,186	117	—	4,303
Other	50	—	—	50
Total mortgage-backed securities	43,459	897	(104)	44,252
U.S. Government Agency Securities	44,363	139	(177)	44,325
Asset-backed securities	15,268	251	—	15,519
Small Business Administration	1,919	45	—	1,964
Other	10,000	—	(9)	9,991
Total available-for-sale	115,009	1,332	(290)	116,051
Held-to-Maturity:				
Mortgage-backed securities *:				
Government National Mortgage Association	5,335	404	—	5,739
Federal Home Loan Mortgage Corporation	2,387	103	—	2,490
Federal National Mortgage Association	1,321	79	—	1,400
Total held-to-maturity mortgage-backed securities	9,043	586	—	9,629
Total securities	$124,052	$1,918	$(290)	$125,680

* 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 at September 30, 2013 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	$(1,066)	$29,132	$—	$—	$(1,066)	$29,132
U.S. Government Agency Securities	(3,291)	45,200	(140)	1,859	(3,431)	47,059
Other	(379)	9,621	—	—	(379)	9,621
Total available-for-sale securities	(4,736)	83,953	(140)	1,859	(4,876)	85,812
Held-to-Maturity:						
Mortgage-backed securities	(277)	4,851	—	—	(277)	4,851
Total held-to-maturity	(277)	4,851	—	—	(277)	4,851
Total securities	$(5,013)	$88,804	$(140)	$1,859	$(5,153)	$90,663

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at March 31, 2013 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	$(104)	$10,298	$—	$—	$(104)	$10,298
U.S. Government Agency Securities	(177)	25,290	—	—	(177)	25,290
Other	(9)	9,991	—	—	(9)	9,991
Total available-for-sale securities	$(290)	$45,579	$—	$—	$(290)	$45,579

A total of 32 securities had an unrealized loss at September 30, 2013 compared to 13 at March 31, 2013. The majority of the securities in an unrealized loss position were U.S. Government Agency securities and mortgage-backed securities, representing 52.7% and 33.9% of total securities in an unrealized loss position that had an unrealized loss for less than 12 months at September 30, 2013. One U.S. Government Agency security representing 2.2% of those securities in an unrealized loss position had an unrealized loss for more than 12 months at September 30, 2013. Given the U.S. government's guarantees of the mortgage-backed and agency securities, there is no reason to believe that these securities will experience credit related losses. Management believes that these unrealized losses are a direct result of the current rate environment and will recover as economic conditions improve.

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 loss. At September 30, 2013, 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 September 30, 2013, 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:			
One through five years	$2,000	$1,984	1.50%
Five through ten years	24,467	23,256	1.95%
After ten years	65,625	61,982	2.11%
Total	$92,092	$87,222	2.06%
Held-to-maturity:			
One through five years	$124	$126	3.12%
Five through ten years	5,174	4,903	2.71%
After ten years	7,121	7,513	4.00%
Total	$12,419	$12,542	3.45%

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), and Consumer and Other Loans.

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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 September 30, 2013 and March 31, 2013:

	September 30, 2013			March 31, 2013		
$ in thousands	Amount	Percent		Amount	Percent	
Gross loans receivable:						
One-to-four family	$120,454	30	%	$73,625	20	%
Multifamily	54,235	14	%	56,427	15	%
Commercial real estate	189,090	47	%	203,813	55	%
Construction	5,175	1	%	1,228	—	%
Business	30,188	8	%	35,795	10	%
Consumer and other [1]	193	—	%	247	—	%
Total loans receivable	$399,335	100	%	$371,135	100	%
Add:						
Premium on loans	1,066			728		
Less:						
Deferred fees and loan discounts,net	(1,360)			(1,741)		
Allowance for loan losses	(9,399)			(10,989)		
Total loans receivable, net	$389,642			$359,133		
Loans held-for-sale	$7,854			$13,107		

[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 six month period ended September 30, 2013.

$ in thousands	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$3,496	$ 408	$3,298	$—	$3,759	$28	$—	$10,989
Charge-offs	1,619	—	512	—	393	15	—	2,539
Recoveries	502	16	—	—	96	9	—	623
Provision for Loan Losses	1,844	(30)	102	210	(1,860)	7	53	326
Ending Balance	$4,223	$ 394	$2,888	$210	$1,602	$29	$53	$9,399
Allowance for Loan Losses Ending	3,556	394	2,659	210	1,147	29	53	8,048

Balance: collectively evaluated for impairment								
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	667	—	229	—	455	—	—	1,351
Loan Receivables Ending Balance	$121,448	$ 54,368	$188,124	$5,142	$29,731	$228	—	$399,041
Ending Balance: collectively evaluated for impairment	115,362	52,994	176,456	5,067	25,146	228	—	375,253
Ending Balance: individually evaluated for impairment	6,086	1,374	11,668	75	4,585	—	—	23,788

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The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the six month period ended September 30, 2012.

$ in thousands	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 4,305	$ 5,409	$ 6,709	$ 1,532	$ 1,786	$ 80	$ —	$ 19,821
Charge-offs	1,633	225	1,148	—	1,198	2	—	4,206
Recoveries	—	—	—	—	6	3	—	9
Provision for Loan Losses	2,037	(2,545)	(513)	(1,226)	3,020	(37)	48	784
Ending Balance	$ 4,709	$ 2,639	$ 5,048	$ 306	$ 3,614	$ 44	48	$ 16,408
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	4,582	2,590	4,613	306	1,944	44	48	14,127
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	127	49	435	—	1,670	—	—	2,281
Loan Receivables Ending Balance:	$ 61,948	$ 73,515	$ 199,641	$ 8,297	$ 36,097	$ 452	—	$ 379,950
Ending Balance: collectively evaluated for impairment	59,024	72,837	187,274	4,039	30,544	452	—	354,170
Ending Balance: individually evaluated for impairment	2,924	678	12,367	4,258	5,553	—	—	25,780

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the fiscal year ended March 31, 2013.

$ 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	1,148	151	2,274	1	5,903
Recoveries	15	91	—	22	265	5	398
Provision for Loan Losses	1,279	(4,866)	(2,263)	(1,403)	3,982	(56)	(3,327)
Ending Balance	$ 3,496	$ 408	$ 3,298	$ —	$ 3,759	$ 28	$ 10,989
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	3,179	409	3,103	—	1,959	28	8,678
Allowance for Loan Losses Ending Balance: individually	317	—	194	—	1,800	—	2,311

evaluated for impairment							
Loan Receivables Ending Balance:	$ 73,987	$ 56,607	$ 202,771	$ 1,230	$ 35,277	$ 250	370,122
Ending Balance: collectively evaluated for impairment	67,619	55,991	186,336	—	28,904	250	339,100
Ending Balance: individually evaluated for impairment	6,368	616	16,435	1,230	6,373	—	31,022

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The following is a summary of non-accrual loans at September 30, 2013 and March 31, 2013.

$ in thousands	September 30, 2013	March 31, 2013
Loans accounted for on a non-accrual basis:		
Gross loans receivable:		
One-to-four family	$4,343	$7,642
Multifamily	758	423
Commercial real estate	10,503	14,788
Construction	75	1,230
Business	2,457	6,505
Consumer and other	4	38
Total non-accrual loans	$18,140	$30,626

Non-accrual loans decreased $12.5 million, or 40.7%, to $18.1 million at September 30, 2013 from $30.6 million at March 31, 2013. The majority of the decline during the current six month period ended September 30, 2013 related to thirteen non-performing loans with a fair value of $7.1 million that were moved to held-for-sale, ten TDR loans with a fair value of $6.4 million that were upgraded to accrual status as they had performed in accordance with their modified terms for six months and one multifamily loan with a fair value of $1.1 million that was paid off.

Non-performing loans at September 30, 2013, were comprised of $10.0 million of loans 90 days or more past due and non-accruing, $4.6 million of loans classified as a troubled debt restructuring and either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months, and $3.6 million of loans that are either performing or less than 90 days past due and have been classified as impaired.

Non-performing loans at March 31, 2013, were comprised of $9.1 million of loans 90 days or more past due and non-accruing, $16.7 million of loans classified as a troubled debt restructuring and either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months, and $4.9 million of loans that were either performing or less than 90 days past due and had been classified as impaired.

At September 30, 2013, other non-performing assets totaled $8.8 million which consists of other real estate owned and held-for-sale loans. At September 30, 2013, other real estate owned valued at $970 thousand comprised of ten foreclosed properties, compared to $2.4 million comprised of nine properties at March 31, 2013. At September 30, 2013, held-for-sale loans totaled $7.9 million, compared to $13.1 million at March 31, 2013.

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 September 30, 2013, the risk category by class of loans is as follows:

$ in thousands	Multi-Family Mortgage	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$52,151	$161,471	$5,100	$20,987
Special Mention	—	9,942	—	2,278
Substandard	2,217	16,711	42	6,466
Total	$54,368	$188,124	$5,142	$29,731

$ in thousands	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$117,105	$224
Non-Performing	4,343	4
Total	$121,448	$228

As of March 31, 2013, and based on the most recent analysis performed, the risk category by class of loans is as follows:

$ in thousands	Multi-Family Mortgage	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$53,419	$165,965	$—	$23,651
Special Mention	—	3,400	—	2,922
Substandard	3,188	33,406	1,230	8,704
Total	$56,607	$202,771	$1,230	$35,277

$ in thousands	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$66,344	$212
Non-Performing	7,643	38
Total	$73,987	$250

The following table presents an aging analysis of the recorded investment of past due financing receivable as of September 30, 2013.

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Non-performing TDR	Performing TDR [1]	Impaired[2]	Current	Total Financing Receivables
One-to-four family residential	$844	$—	$2,413	$3,257	$ 1,930	$3,189	—	$113,072	$121,448
Multi-family mortgage	1,285	142	758	2,185	—	616	—	51,567	54,368
Commercial real estate	202	696	5,700	6,598	1,811	3,898	2,992	172,825	188,124
Construction	—	—	—	—	75	—	—	5,067	5,142
Business	47	—	1,082	1,129	756	3,211	619	24,016	29,731
Consumer and other	18	9	4	31	—	—	—	197	228
Total	$2,396	$847	$9,957	$13,200	$ 4,572	10,914	$3,611	$366,744	$399,041

[1] The performing TDR category details those loans that the Company has determined that the future collection of principal and interest is reasonably assured, this generally represents those borrowers who have performed according to the restructured terms for a period of at least six months.
[2] Consists of loans which are less than 90 days past due but impaired due to other risk characteristics.

The following table presents an aging analysis of the recorded investment of past due financing receivable as of March 31, 2013.

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Non-performing TDR	Performing TDR [1]	Impaired[2]	Current	Total Financing Receivables
One-to-four family residential	$348	$28	$4,501	$4,877	$ 3,141	$2,670	$—	63,299	73,987
Multi-family mortgage	238	1,142	423	1,803	—	616	—	54,188	56,607
Commercial real estate	220	846	2,671	3,737	9,097	1,290	3,020	185,627	202,771
Construction	—	—	—	—	—	—	1,230	—	1,230
Business	261	148	1,439	1,848	4,447	464	619	27,899	35,277
Consumer and other	6	1	38	45	—	—	—	205	250
Total	$1,073	$2,165	$9,072	$12,310	$ 16,685	$5,040	$4,869	$331,218	$370,122

[1] The performing TDR category details those loans that the Company has determined that the future collection of principal and interest is reasonably assured. This generally represents those borrowers who have performed according to the restructured terms for a period of at least six months.
[2] Consists of loans which are less than 90 days past due but impaired due to other risk characteristics.

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The following table presents information on impaired loans with the associated allowance amount, if applicable, at September 30, 2013 and the interest income recognized for the six month period ended September 30, 2013 and 2012.

	September 30, 2013					September 30, 2012	
$ in thousands	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
With no specific allowance recorded:							
One-to-four family residential	$918	$1,278	$—	$1,376	$1	$467	$27
Multi-family mortgage	1,374	1,374	—	995	1	97	5
Commercial real estate	8,623	9,018	—	8,703	62	6,141	151
Construction	75	339	—	519	—	5,293	53
Business	1,730	2,164	—	1,689	7	2,536	41
Total	$12,720	$14,173	$—	$13,282	$71	$14,534	$277
With an allowance recorded:							
One-to-four family residential	$5,168	$5,292	$667	$5,200	$40	$2,552	$28
Multi-family mortgage	—	—	—	—	—	742	—
Commercial real estate	3,045	3,259	229	3,802	5	8,182	115
Business	2,855	2,855	455	3,700	36	3,242	199
Total	$11,068	$11,406	$1,351	$12,702	$81	$14,718	$342
Total impaired loans by type:							
One-to-four family residential	$6,086	$6,570	$667	$6,576	$41	$3,019	$55
Multi-family mortgage	1,374	1,374	—	995	1	839	5
Commercial real estate	11,668	12,277	229	12,505	67	14,323	266
Construction	75	339	—	519	—	5,293	53
Business	4,585	5,019	455	5,389	43	5,778	240
Total	$23,788	$25,579	$1,351	$25,984	$152	$29,252	$619

The following table presents information on impaired loans with the associated allowance amount, if applicable, and the interest income recognized during the year ended March 31, 2013.
Impaired Loans by Class
As of and for the year ended March 31, 2013

$ in thousands	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Balance	Interest Income Recognized
With no specific allowance recorded:					
One-to-four family residential	$1,319	$1,460	$—	$1,215	$47
Multi-family mortgage	616	616	—	308	5
Commercial real estate	11,070	11,270	—	9,865	235
Construction	1,230	1,492	—	1,230	53
Business	1,080	2,002	—	1,136	41
Total	$15,315	$16,840	$—	$13,754	$381
With an allowance recorded:					
One-to-four family residential	$5,049	$5,244	$317	$5,363	$57
Commercial real estate	5,365	5,913	194	6,302	133
Business	5,293	5,293	1,800	4,932	254
Total	$15,707	$16,450	$2,311	$16,597	$444

Total impaired loans by type:					
One-to-four family residential	$6,368	$6,704	$317	6,578	104
Multi-family mortgage	616	616	—	308	5
Commercial real estate	16,435	17,183	194	16,167	368
Construction	1,230	1,492	—	1,230	53
Business	6,373	7,295	1,800	6,068	295
Total	$31,022	$33,290	$2,311	$30,351	$825

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In certain circumstances, loan modifications involve a troubled borrower to whom the Bank may grant a modification. Situations around modifications involving troubled borrowers 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. In cases where the Bank grants any significant concessions to a troubled borrower, the Bank accounts for the modification as a TDR under ASC 310-40 and the related allowance under ASC 310-10-35. Loans modified in TDRs are placed on non-accrual 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.

There were no modifications made during the three month period ended September 30, 2013.

The following table presents an analysis of those loan modifications that were classified as TDRs during the six month period ended September 30, 2013:

	Modifications to loans during the six month period ended September 30, 2013						
$ in thousands	Number of loans	Pre-modification outstanding recorded investment	Post modification recorded investment	Pre-Modification rate		Post-Modification rate	
One-to-four family residential	1	$484	$549	7.50	%	5.50	%
Business	1	919	719	6.00	%	6.00	%
	2	$1,403	$1,268				

The following table presents an analysis of those loan modifications that were classified as non performing TDRs during the three and six month period ended September 30, 2012:

	Modifications to loans during the three month period ended September 30, 2012							Modifications to loans during the six month period ended September 30, 2012						
$ in thousands	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 residential	1	$ 875	$—	8.13	%	8.13	%	2	$ 1,415	$ 540	6.55	%	6.07	%
Commercial real estate	1	466	466	12.02	%	12.02	%	1	466	466	12.02	%	12.02	%
Business	4	2,242	2,242	7.44	%	7.44	%	4	2,242	2,242	7.44	%	7.44	%
Total	6	$ 3,583	$ 2,708					7	$ 4,123	$ 3,248				

In an effort to proactively manage delinquent loans, Carver has selectively extended to certain borrowers concessions such as extensions, rate reductions or forbearance agreements. For the six month period ended September 30, 2013, one loan of $0.5 million was modified with an interest rate concession of 2.00% and one loan of $0.7 million was extended. For the three month period ended September 30, 2012, no loans were modified with interest rate concessions. For the six month period ended September 30, 2012, one loan of $0.5 million was modified with an interest rate concession of 1.25%.

For the period ended September 30, 2013, there were no loans that had been modified and subsequently defaulted within the last twelve months. For the period ended September 30, 2012, Carver had one commercial real estate loans with an outstanding balance of $2.4 million that had been modified and subsequently defaulted within the 12 month period.

At September 30, 2013 there were eighteen loans in the TDR portfolio totaling $10.9 million that were on accrual status as they had performed within their modified terms for a consecutive six month period. At March 31, 2013, there were nine loans in the TDR portfolio totaling $5.0 million that were performing in accordance within their modified terms for a consecutive six month period.

At September 30, 2013 and 2012, 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.

The following table presents, by valuation hierarchy, assets that are measured at fair value on a recurring basis as of September 30, 2013 and March 31, 2013, and that are included in the Company’s Consolidated Statements of Financial Condition at these dates:

	Fair Value Measurements at September 30, 2013, Using			
$ in thousands	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	$—	$—	$276	$276
Investment securities:				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—	5,938	—	5,938
Federal Home Loan Mortgage Corporation	—	13,597	—	13,597
Federal National Mortgage Association	—	10,958	—	10,958
Other	—	56,680	49	56,729
Total available-for-sale securities	—	87,173	49	87,222
Total assets	$—	$87,173	$325	$87,498

$ in thousands	Fair Value Measurements at March 31, 2013, 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	$—	$—	$275	$275
Investment securities:				
Available-for-sale:				
Mortgage-backed securities:				
Agency mortgage-backed securities	—	23,840	—	23,840
Federal Home Loan Mortgage Corporation	—	16,059	—	16,059
Federal National Mortgage Association	—	4,303	—	4,303
Asset-backed Securities	—	15,519	—	15,519
Other	—	56,279	51	56,330
Total available-for-sale securities	—	116,000	51	116,051
Total assets	$—	$116,000	$326	$116,326

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights (“MSR”) and other available-for-sale securities. Level 3 assets accounted for 0.1% of the Company’s total assets at September 30, 2013 and March 31, 2013.

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 six month period ended September 30, 2013, 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 roll-forward of assets classified by the Company within Level 3 of the valuation hierarchy for the six months ended September 30, 2013 and 2012:

$ in thousands	Beginning balance, April 1, 2013	Total Realized/Unrealized Gains/(Losses) Recorded in Income [1]	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, September 30, 2013	Change in Unrealized Gains and (Losses) Related to Instruments Held at September 30, 2013
Securities Available-for-Sale	$51	$ —	$(2)	$—	$49	$—
Mortgage servicing rights	275	1	—	—	276	—

$ in thousands	Beginning balance, April 1, 2012	Total Realized/Unrealized Gains/(Losses) Recorded in Income [1]	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, September 30, 2012	Change in Unrealized Gains and (Losses) Related to Instruments Held at September 30, 2012
Securities Available-for-Sale	$52	$ (1)	$—	$—	$51	$—
Mortgage servicing rights	491	(26)	—	—	465	—

[1] 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 September 30, 2013 and March 31, 2013 and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

	Fair Value Measurements at September 30, 2013, Using			
$ in thousands	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Loans held-for-sale	$—	$7,854	$—	$7,854
Impaired loans with a specific reserve allocated	$—	$—	$9,717	$9,717
Other real estate owned	$—	$970	$—	$970

	Fair Value Measurements at March 31, 2013, Using			
$ in thousands	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value

Loans held-for-sale	$—	$13,107	$—	$13,107
Impaired loans with a specific reserve allocated	$—	$—	$13,397	$13,397
Other real estate owned	$—	$2,386	$—	$2,386

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 September 30, 2013 was 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.

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 represent 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 September 30, 2013 and March 31, 2013 are as follows:

	September 30, 2013				
$ in thousands	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$105,842	$105,842	$105,842	$—	$—
Restricted cash	6,556	6,556	—	6,556	—
Securities available-for-sale	87,222	87,222	—	87,173	49
FHLB Stock	4,226	4,226	—	4,226	—
Securities held-to-maturity	12,419	12,542	—	12,542	—
Loans receivable	389,642	391,446	—	—	391,446
Loans held-for-sale	7,854	7,854	—	7,854	—
Accrued interest receivable	2,530	2,530	—	2,530	—
Mortgage servicing rights	276	276	—	—	276
Financial Liabilities:					
Deposits	$479,458	$466,764	$278,599	$188,165	$—
Advances from FHLB of New York	77,000	78,542	—	78,542	—
Other borrowed money	18,403	18,908	—	18,908	—

$ in thousands	March 31, 2013 Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$104,646	$104,646	$104,646	$—	$—
Restricted cash	10,666	10,666	—	10,666	—
Securities available-for-sale	116,051	116,051	—	116,000	51
FHLB Stock	3,503	3,503	—	3,503	—
Securities held-to-maturity	9,043	9,629	—	9,629	—
Loans receivable	359,133	366,433	—	—	366,433
Loans held-for-sale	13,107	13,107	—	13,107	—
Accrued interest receivable	2,247	2,247	—	2,247	—
Mortgage servicing rights	275	275	—	—	275
Financial Liabilities:					
Deposits	$495,716	$488,323	$287,625	$200,698	$—
Advances from FHLB of New York	58,000	58,697	—	58,697	—
Other borrowed money	18,403	18,900	—	18,900	—

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 approximates 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 1, 2 and 3. Held-to-maturity securities are classified as Level 2.

FHLB Stock

The fair value of FHLB stock approximates the carrying amount, which is at cost 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 insignificant as of September 30, 2013 and March 31, 2013. 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. VARIABLE INTEREST ENTITIES

The Company's subsidiary, Carver Statutory Trust I, is not consolidated with Carver Bancorp, Inc. for financial reporting purposes. Carver Statutory Trust I was formed in 2003 for the purpose of issuing $13 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 (“Capital Securities”) and $0.4 million of common securities (which are the only voting securities of Carver Statutory Trust I), which are 100% owned by Carver Bancorp Inc., and using the proceeds to acquire Junior Subordinated Debentures issued by Carver Bancorp, Inc. Carver Bancorp, Inc. has fully and unconditionally guaranteed the Capital Securities along with all obligations of Carver Statutory Trust I under the trust agreement relating to the Capital Securities.

The Bank's subsidiary, Carver Community Development Corporation (“CCDC”), was formed to facilitate its participation in local economic development and other community-based activities. Per the NMTC Award's Allocation Agreement between the CDFI Fund and CCDC, CCDC is permitted to form and sub-allocate credits to subsidiary Community Development Entities (“CDEs”) to facilitate investments in separate development projects.

The variable interest entities (“VIEs”) such as the CDE's and Carver Statutory Trust I are consolidated, as required, where Carver has controlling financial interest in these entities and is deemed to be the primary beneficiary. Carver is normally deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

(a) the power to direct activities of a VIE that most significantly impact the entities economic performance; and

(b) the obligation to absorb losses of the entity that could benefit from the activities that could potentially be significant to the VIE.

The Bank's involvement with 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 is presented below:

$ in thousands	Involvement with SPE (000's)					Funded Exposure		Unfunded Exposure		Total
	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments (1)	Funding Commitments	Maximum exposure to loss	
Carver Statutory Trust 1	$—	$—	$ —	$ 13,400	$ 13,400	$13,000	$400	$—	$—	$13,400
CDE 1-9, CDE 11-12	—	40,000	17,630	—	17,630	—	—	—	7,800	7,800
CDE 10	1,700	19,000	—	15,991	15,991	—	—	—	7,410	7,410
CDE 13	500	10,500	—	10,585	10,585	—	1	—	4,095	4,096
CDE 14	400	10,000	—	10,095	10,095	—	1	—	3,900	3,901
CDE 15, CDE 16, CDE 17	900	20,500	—	20,911	20,911	—	2	—	7,995	7,997
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,169	5,170
CDE 19	500	10,746	—	10,862	10,862	—	1	—	4,191	4,192
CDE 20	625	12,500	—	12,352	12,352	—	1	—	4,875	4,876
CDE 21	625	12,500	—	12,405	12,405	—	1	—	4,875	4,876
Total	$5,850	$149,000	$ 17,630	$ 119,883	$ 137,513	$13,000	$408	$—	$50,310	$63,718

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

The Bank was originally awarded $59 million of NMTC. In fiscal 2008, the Bank transferred $19 million of rights to an investor in a NMTC project. The entity was called CDE-10.

With respect to the remaining $40 million of the original NMTC award, the Bank has established various special purpose entities (CDEs 1-9,11-12) through which its investments in NMTC eligible activities are conducted. As the Bank is exposed to all of the expected losses and residual returns from these investments under ASC topic 810, the Bank has determined it has a controlling financial interest and is the primary beneficiary of these entities. During December 2010, Carver transferred its equity ownership in the CDEs and the associated rights to an investor in exchange for $6.7 million in cash.

As a result of Carver financing the purchase note, the CDEs continue to be consolidated and the investor's equity investment of $6.7 million was reflected as non-controlling interest in the Statement of Financial Condition. The sale of the equity interest in the CDEs provides the investor with rights to the new markets tax credits on a prospective basis. A portion of non-controlling interest is transferred to the controlling interest as the investor earns the tax credits. Under the current arrangement, the Bank has a contingent obligation to reimburse the investor for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the investor's ability to otherwise utilize tax credits stemming from the award.

In May 2009, the Bank received a second NMTC award in the amount of $65 million. During the period from December 2009 to December 2010, the Bank transferred rights to investors in NMTC projects (entities CDE 13-19). The Bank has a contingent obligation to reimburse the investors for any losses or shortfalls incurred as a result of the

NMTC projects not being in compliance with certain regulations that would void the investors' ability to otherwise utilize tax credits stemming from the award.

In August 2011, the Bank received a third NMTC award in the amount of $25 million. In January 2012 and September 2012, the Bank transferred rights to investors in NMTC projects (CDE 20 and 21). The Bank has a contingent obligation to reimburse the investors for any losses or shortfalls incurred as a result of the NMTC projects not being in compliance with certain regulations that would void the investors' ability to otherwise utilize tax credits stemming from the award.

The Bank has established various special purpose entities (CDEs 22-25) through which its investments in NMTC eligible activities will be conducted. As of September 30, 2013 there have been no activities in these entities.

NOTE 11. IMPACT OF ACCOUNTING STANDARDS AND INTERPRETATIONS

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," ("ASU 2013-02"). ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in financial statements. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 did not have any effect on the Company's consolidated statement of financial condition or results of operations. Information required by ASU 2013-02 is presented in note 5 to the financial statements.

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 compar 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 which could cause actual results to differ materially from these estimates. These factors include but are not limited to the following:

- the ability of the Bank and the Company to comply with regulatory orders that may be imposed upon the Bank and Company, and the effect on operations resulting from restrictions that may be and are set forth in the 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 ("U.S.") 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;

- 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 and Consumer Protection Act and Basel III;
- our ability to manage our operations following increased leverage and risk-based capital requirements following the implementation of Basel III by our regulators;
- 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;
- 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 principles, policies or guidelines, which may cause changes to our financial reporting obligations;
- 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;
- the ability to attract and retain key members of management;
- the ability to realize cost efficiencies and
- the ability to utilize the New Markets Tax Credits ("NMTC").

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

Carver Bancorp, Inc., a Delaware corporation (the "Company") is the holding company for Carver Federal Savings Bank ("Carver Federal" or the "Bank"), 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 its wholly-owned subsidiary, 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 five 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. 78% of newly originated loans were within Carver's assessment area, and the Bank has demonstrated excellent responsiveness to its assessment areas needs through its community development lending, investing and service activities. The Bank had approximately $634.8 million in assets as of September 30, 2013 and employed approximately 133 employees as of September 30, 2013.

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. 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, multi-family 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 60 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 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 the 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. 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 their performance, therefore it is not the primary beneficiary 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 investor's ability to otherwise utilize tax credits stemming from the award. As of June 30, 2013, all three award allocations have been fully utilized in qualifying projects.

The Bank's 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:

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 [(1)]	Maximum exposure to loss	
Carver Statutory Trust 1	$ —	$ —	$ —	$ 13,400	$ 13,400	$ 13,000	$ 400	$—	$—	$ 13,400
CDE 1-9, CDE 11-12	—	40,000	17,630	—	17,630	—	—	—	7,800	7,800
CDE 10	1,700	19,000	—	15,991	15,991	—	—	—	7,410	7,410
CDE 13	500	10,500	—	10,585	10,585	—	1	—	4,095	4,096
CDE 14	400	10,000	—	10,095	10,095	—	1	—	3,900	3,901
CDE 15, CDE 16, CDE 17	900	20,500	—	20,911	20,911	—	2	—	7,995	7,997
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,169	5,170
CDE 19	500	10,746	—	10,862	10,862	—	1	—	4,191	4,192
CDE 20	625	12,500	—	12,352	12,352	—	1	—	4,875	4,876
CDE 21	625	12,500	—	12,405	12,405	—	1	—	4,875	4,876
Total	$ 5,850	$ 149,000	$ 17,630	$ 119,883	$ 137,513	$ 13,000	$ 408	$—	$ 50,310	$ 63,718

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

Critical Accounting Policies

Note 2 to the Company’s audited Consolidated Financial Statements for fiscal year-end 2013 included in its 2013 Form 10-K, as supplemented by this report, contains a summary of significant accounting policies and is incorporated by reference. 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 2013 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 Office of the Comptroller of the Currency 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 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. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio. 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.

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 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
- 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

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 four 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 & 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

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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 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 & 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.

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. 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. 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 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 September 30, 2013, 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 equity. 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 $0.9 million. 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 September 30, 2013, 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). No repurchases of the Company's common stock were made during the second quarter of the 2014 fiscal year. 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. 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 their 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.

Equity Transactions

On October 25, 2011, Carver's stockholders voted to approve a 1-for-15 reverse stock split. A separate vote of stockholder approval was given to convert the Series C preferred stock into Series D preferred stock and common stock and exchange the Treasury 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. Series C stock was previously reported as Mezzanine equity, and upon conversion to common and Series D is now reportable as Stockholders equity.

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 September 30, 2013.

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 increased $19.0 million to $95.4 million at September 30, 2013 from $76.4 million at March 31, 2013. At September 30, 2013, the Bank had $52.0 million in borrowings with a weighted average rate of 0.35% maturing over the next three years. The continued disruption in the credit markets has not materially impacted the Company's ability to access borrowings. At September 30, 2013, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional $162 thousand 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 September 30, 2013 and March 31, 2013, assets qualifying for short-term liquidity, including cash and cash equivalents, totaled $105.8 million and $104.6 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. Because Carver Federal generally sells its one-to-four family 15-year and 30-year fixed rate loan production into the secondary mortgage market, the origination of such products for sale does not significantly reduce Carver Federal's liquidity. 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 six months ended September 30, 2013 total cash and cash equivalents increased $1.2 million to $105.8 million reflecting cash used in investing activities of $12.2 million, cash provided by operating activities of $10.7 million, and cash provided by financing activities of $2.7 million.

Net cash used in investing activities of $12.2 million was primarily the result of outflows related to loan purchases of $54.5 million, loan originations of $45.0 million and investment purchases of $30.2 million. This activity was offset primarily by inflows of $61.9 million in principal collections on loans and $48.9 million in proceeds from investments. Net cash provided by operating activities of $10.7 million primarily originated from sales of held-for-sale loans during the period. Net cash provided by financing activities was $2.7 million, primarily resulting from a net increase in borrowed funds of $19.0 million offset by decreased deposits of $16.3 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.

The table below presents the capital position of the Bank at September 30, 2013 (dollars in thousands):

$ in thousands	Tier 1 Leverage Ratio	Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio
GAAP Capital at September 30, 2013	$61,607	$61,607	$61,607
Add:			
General valuation allowances	—	—	4,844
Qualifying subordinated debt	—	—	5,000
Other	474	474	474
Deduct:			
Unrealized gains on securities available-for-sale, net	(4,855)	(4,855)	(4,855)
Regulatory Capital	66,936	66,936	76,780
Minimum Capital requirement	57,228	49,964	49,964
Regulatory Capital Excess	$9,708	$16,972	$26,816
Capital Ratios	10.53%	17.42%	19.98%

Bank Regulatory Matters

On February 7, 2011, the Bank and the Company 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 that its earnings were inadequate to augment its capital.

On June 29, 2011, the Company raised $55 million of capital. The $55 million resulted in a $51.4 million increase in liquidity net of the effect of various expenses associated with the capital raise. On June 30, 2011 the Company downstreamed $37 million to the Bank. During December 2011, the Company downstreamed another $7 million to the Bank. No assurances can be given that the amount of capital raised is sufficient to absorb the losses emanating from the Bank's loan portfolio. Should the losses be greater than expected, additional capital may be necessary in the future.

The Orders included a capital directive requiring the Bank to achieve and maintain minimum regulatory capital levels. At September 30, 2013, the Bank's capital level exceeded the regulatory requirements with a Tier 1 leverage capital ratio of 10.53% , a Tier 1 risk-based capital ratio of 17.42%, and a total risk-based capital ratio of 19.98%.

Under the Orders, the Bank and Company are also prohibited from paying any dividends without prior regulatory approval. On October 18, 2011, the Company received approval from the Federal Reserve Bank to pay all outstanding dividend payments on the Company's fixed-rate cumulative perpetual preferred stock issued under the Capital Purchase Program of the United States Department of the Treasury (“U.S. Treasury”). These payments were made in connection with the U.S. Treasury, on October 28, 2011, exchanging the CDCI Series B preferred stock for 2,321,286 shares of Company common stock.

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 (GSE's). 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 and 2013, 3 and 10 loans, respectively, that had been sold to FNMA were repurchased by the Bank. During the first two quarters of fiscal 2014, 4 loans that had been sold to FNMA were repurchased by the Bank. At September 30, 2013, the Bank was still servicing 167 loans with a principal balance of $30.4 million for FNMA that had been sold with standard representations and warranties.

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, 2013[1]	$4,851	
Gross new demands received	1,073	
Loans repurchased/made whole	(1,670	)
Demands rescinded	(1,447	)
Principal payments received on open claims	(10	)
Open claims as of September 30, 2013[1]	$2,797	

[1] 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. These reserves are reported in our consolidated statement of financial condition as a component of other liabilities. The reserve totaled $0.4 million as of September 30, 2013.

The table below summarizes changes in our representation and warranty reserves during the first six months of fiscal 2014:

$ in thousands	September 30, 2013	
Representation and warranty repurchase reserve, beginning of period [1]	$1,125	
Net provision for repurchase losses [2]	(641	)
Net realized losses [2]	(65	)
Representation and warranty repurchase reserve, end of period [1]	$419	

[1] Reported in our consolidated balance sheets as a component of other liabilities.
[2] Component of other non-interest expense.

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Comparison of Financial Condition at September 30, 2013 and March 31, 2013
Assets
At September 30, 2013, total assets decreased $3.5 million, or 0.5%, to $634.8 million, compared to $638.3 million at March 31, 2013. The overall change was due to a decrease of $25.5 million in the investment portfolio, offset by increases in the loan portfolio, net of the allowance for loan losses, of $30.5 million.
Total investment securities decreased $25.5 million, or 20.3%, to $99.6 million at September 30, 2013, compared to $125.1 million at March 31, 2013. This change reflects a decrease of $28.8 million in available-for-sale securities, as the Company sold its lowest yielding securities to fund the growth in the loan portfolio, offset slightly by an increase of $3.4 million in the Company's held-to-maturity securities.
Net loans receivable increased $28.9 million, or 7.8%, to $399.0 million at September 30, 2013, compared to $370.1 million at March 31, 2013. Real estate mortgage loans increased $34.5 million to $369.1 million at September 30, 2013 from $334.6 million at March 31, 2013. Commercial business loans decreased $5.5 million to $29.8 million at September 30, 2013 from $35.3 million at March 31, 2013. The majority of the increase in loans resulted from loan purchases, originations, refinancings and advances of $100.1 million, offset by $61.8 million of principal repayments and loan payoffs across all loan classifications. An additional $7.9 million in loans were transferred from held-for-investment to HFS and $1.3 million represented principal charge-offs associated with the move in loans to HFS.
HFS loans decreased $5.3 million, or 40.1%, to $7.9 million as the Company continued to take aggressive steps to resolve troubled loans. During the six month period, $7.9 million in loans, net of charge-offs, were transferred into the HFS portfolio from the held-for-investment portfolio. This increase was offset by $13.0 million in sales and paydowns.

Liabilities and Stockholders' Equity
Total liabilities increased $1.5 million, or 0.3%, to $583.1 million at September 30, 2013, compared to $581.5 million at March 31, 2013, due to an increase in borrowings and FHLB-NY advances of $19.0 million, offset by reductions in deposits of $16.3 million.
Deposits decreased $16.3 million, or 3.3%, to $479.5 million at September 30, 2013, compared to $495.7 million at March 31, 2013, due primarily to decreases in certificates of deposit as the low interest rate environment led depositors to seek alternative investment opportunities for maturing deposits. Certificates of deposits decreased $12.5 million, or 6.2%, to $187.7 million at September 30, 2013 from $200.2 million at March 31, 2013.
Advances from the Federal Home Loan Bank of New York ("FHLB-NY") and other borrowed money increased $19.0 million, or 24.9%, to $95.4 million at September 30, 2013, compared to $76.4 million at March 31, 2013, as the Company added short-term borrowings during the six month period to offset the decrease in certificates of deposit.
Total equity decreased $5.0 million, or 8.8%, to $51.8 million at September 30, 2013, compared to $56.7 million at March 31, 2013. The majority of the decrease was due to $5.9 million in accumulated other comprehensive losses from unrealized losses on investments caused by the spike in interest rates during the six 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 the credit quality of earning assets. Management's asset/liability objectives are to maintain a strong, stable net interest margin, to utilize its 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 in order 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. Lending commitments include commitments to originate mortgage and consumer loans and commitments 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 Fiscal 2013 Form 10-K.

The following table reflects the Bank's outstanding lending commitments and contractual obligations as of September 30, 2013:

$ in thousands	
Commitments to fund mortgage loans	$7,025
Commitments to fund commercial and consumer loans	11,250
Lines of credit	6,434
Letters of credit	334
Total	$25,043

Comparison of Operating Results for the Three and Six Months Ended September 30, 2013 and 2012
Overview

The Company reported net income of $342 thousand for the three months ended September 30, 2013, compared to a net loss of $136 thousand for the comparative prior year period. Earnings per share for the quarter was $0.09 compared to a loss per share of $0.04 for the prior year period. Primary drivers of improvement in net income over the prior year period loss was a negative provision in the current quarter versus higher non-interest expense partially offset by one-time New Market Tax Credit ("NMTC") fee income in the prior year period.

The following table reflects selected operating ratios for the three and six months ended September 30, 2013 and 2012:

CARVER BANCORP, INC. AND SUBSIDIARIES
SELECTED KEY RATIOS
(Unaudited)

	Three Months Ended September 30,				Six Months Ended September 30,			
Selected Financial Data:	2013		2012		2013		2012	
Return on average assets [1]	0.22	%	(0.09	)%	0.25	%	(0.16	)%
Return on average stockholders' equity [2]	2.39	%	(0.97	)%	2.62	%	(1.79	)%
Net interest margin [3]	3.43	%	3.19	%	3.31	%	3.14	%
Interest rate spread [4]	3.32	%	3.01	%	3.18	%	2.94	%
Efficiency ratio [5] [8]	100.87	%	94.41	%	89.80	%	103.48	%
Operating expenses to average assets [6]	4.32	%	4.46	%	3.92	%	4.33	%
Average equity to average assets [7]	9.25	%	8.97	%	9.40	%	8.91	%
Average interest-earning assets to average interest-bearing liabilities	1.18	x	1.23	x	1.19	x	1.24	x

(1) Net income/(loss), annualized, divided by average total assets.
(2) Net income/(loss), annualized, divided by average total stockholders' equity.
(3) 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 expenses divided by sum of net interest income plus non-interest income.
(6) Non-interest expenses, annualized, divided by average total assets.
(7) Total average equity divided by total average assets for the period.
(8) Non-GAAP Financial Measures: In addition to evaluating Carver Bancorp'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 ratios. Management believes this non-GAAP financial measure provides information 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.

Analysis of Net Interest Income

The Company’s profitability is primarily dependent upon net interest income and further affected by provisions 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 increased $101 thousand to $5.0 million for the three months ended September 30, 2013, compared to $4.9 million for the comparative prior year period. The variance was predominantly due to a $276 thousand decrease in total interest expense, offset by a decline in interest income of $175 thousand for the quarter. The decline in interest income for the three months ended September 30, 2013 primarily stemmed from a decrease in loan income of $223 thousand from the prior comparative period.

Net interest income decreased $171 thousand to $9.5 million for the six months ended September 30, 2013, compared to $9.7 million for the prior year period. The variance was predominantly in interest income on loans, which declined $896 thousand, partially offset by a decrease in interest expense of $586 thousand, and an increase in interest income on investment securities of $189 thousand.

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 average costs for the three and six months ended September 30, 2013 and 2012. 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. 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)

	For the Three Months Ended September 30,					
	2013			2012		
$ in thousands	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-Earning Assets:						
Loans [(1)]	$371,577	$5,263	5.67 %	$414,092	$5,486	5.30 %
Mortgage-backed securities	58,226	285	1.96 %	52,685	275	2.09 %
Investment securities	60,966	266	1.75 %	54,194	221	1.63 %
Restricted cash deposit	6,556	—	0.03 %	6,415	1	0.03 %
Equity securities [(2)]	2,717	27	3.94 %	2,525	23	3.61 %
Other investments and federal funds sold	78,550	101	0.51 %	79,447	111	0.55 %
Total interest-earning assets	578,592	5,942	4.11 %	609,358	6,117	4.01 %
Non-interest-earning assets	31,753			8,820		
Total assets	$610,345			$618,178		
Interest-Bearing Liabilities:						
Deposits:						
NOW demand	$25,556	$10	0.16 %	$26,393	$11	0.17 %
Savings and clubs	96,566	64	0.26 %	99,807	66	0.26 %
Money market	115,777	134	0.46 %	109,341	194	0.70 %
Certificates of deposit	189,380	471	0.99 %	212,516	627	1.17 %
Mortgagors deposits	1,853	8	1.71 %	1,839	8	1.73 %
Total deposits	429,132	687	0.64 %	449,896	906	0.80 %
Borrowed money	61,870	290	1.86 %	43,906	347	3.14 %
Total interest-bearing liabilities	491,002	977	0.79 %	493,802	1,253	1.01 %
Non-interest-bearing liabilities:						
Demand	55,248			60,890		
Other liabilities	7,779			8,266		
Total liabilities	554,029			562,958		
Non-controlling interest	(165)			(200)		
Stockholders' equity	56,481			55,420		
Total liabilities & stockholders' equity	$610,345			$618,178		
Net interest income		$4,965			$4,864	

Average interest rate spread	3.32	%	3.01	%
Net interest margin	3.43	%	3.19	%

(1) Includes non-accrual loans
(2) Includes FHLB-NY stock

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$ in thousands	For the Six Months Ended September 30, 2013 Average Balance	Interest	Average Yield/Cost		2012 Average Balance	Interest	Average Yield/Cost	
Interest-Earning Assets:								
Loans [1]	$368,657	$10,178	5.52	%	$422,185	$11,074	5.25	%
Mortgage-backed securities	58,098	548	1.89	%	54,015	569	2.11	%
Investment securities	61,894	540	1.74	%	43,099	332	1.54	%
Restricted cash deposit	7,903	1	0.03	%	6,415	1	0.03	%
Equity securities [2]	2,339	46	3.92	%	2,546	46	3.60	%
Other investments and federal funds sold	76,328	198	0.52	%	89,567	246	0.55	%
Total interest-earning assets	575,219	11,511	4.00	%	617,827	12,268	3.97	%
Non-interest-earning assets	30,829				7,553			
Total assets	$606,048				$625,380			
Interest-Bearing Liabilities:								
Deposits:								
NOW demand	$25,987	$21	0.16	%	$26,500	$21	0.16	%
Savings and clubs	97,278	129	0.26	%	100,552	133	0.26	%
Money market	115,112	265	0.46	%	109,335	397	0.72	%
Certificates of deposit	191,309	951	0.99	%	216,364	1,312	1.21	%
Mortgagors deposits	2,049	18	1.75	%	2,147	19	1.77	%
Total deposits	431,735	1,384	0.64	%	454,898	1,882	0.83	%
Borrowed money	53,482	603	2.25	%	43,918	691	3.14	%
Total interest-bearing liabilities	485,217	1,987	0.82	%	498,816	2,573	1.03	%
Non-interest-bearing liabilities:								
Demand	55,856				63,033			
Other liabilities	8,237				7,563			
Total liabilities	549,310				569,412			
Non-controlling interest	(210)				231			
Stockholders’ equity	56,948				55,737			
Total liabilities & stockholders’ equity	$606,048				$625,380			
Net interest income		$9,524				$9,695		
Average interest rate spread			3.18	%			2.94	%
Net interest margin			3.31	%			3.14	%

[1] Includes non-accrual loans
[2] Includes FHLB-NY stock

Interest Income

Interest income decreased $175 thousand, or 2.9%, to $5.9 million in the second quarter, compared to $6.1 million for the prior year quarter, primarily attributable to a $42.5 million, or 10.3%, decrease in average loans. Although the average yield on loans increased 37 basis points to 5.67% from 5.30%, following a reduction in non-performing loans, the decrease in average loans reduced total interest income on loans. The average yield on mortgage-backed securities decreased 13 basis points to 1.96% from 2.09% as the securities added to the portfolio carried lower yields than the securities that were sold or paid down.

Interest income decreased $757 thousand, or 6.2%, to $11.5 million for the six month period, compared to $12.3 million for the prior year period, primarily attributed to a $53.5 million, or 12.7%, decrease in average loans. The average yield on loans increased 27 basis points to 5.52% from 5.25%, which was directly related to a reduction in non-performing loans. The decline in average loan balances did, however, decrease total interest income on loans. The average yield on mortgage-backed securities decreased 22 basis points to 1.89% from 2.11% during the prior year period, as higher yielding securities were sold or paid down, and replaced with lower yielding securities. Investment securities income increased by $208 thousand, or 62.7%, for the six months ended September 30, 2013 compared to the prior year period, primarily from an increase of $18.8 million in the average balance coupled with an increase of 20 basis points from year to year.

Interest Expense

Interest expense decreased $276 thousand, or 22.0%, to $1.0 million for the three months ended September 30, 2013, compared to $1.3 million for the prior year quarter, following the restructuring of a long-term borrowing in the first quarter of the current fiscal year, and lower rates paid on money market accounts and certificates of deposits. The average rate on interest-bearing liabilities decreased 22 basis points to 0.79% for the quarter ended September 30, 2013, compared to 1.01% for the prior year period.

Interest expense decreased $586 thousand, or 22.8%, to $2.0 million for the six month period, compared to $2.6 million for the prior year period, following lower rates paid on money market accounts and certificates of deposits and the restructuring of a long-term borrowing in the first quarter of the current fiscal year. The average yield on interest-bearing liabilities decreased 21 basis points to 0.82% for the six months ended September 30, 2013, compared to 1.03% for the prior year period.

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 are all taken into consideration. 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 Office of the Comptroller of the Currency 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 Holding Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

The following table summarizes the activity in the ALLL for the six month period ended September 30, 2013 and 2012 and the fiscal year-end March 31, 2013:

$ in thousands	Six Months Ended September 30, 2013		Fiscal Year Ended March 31, 2013		Six Months Ended September 30, 2012	
Beginning Balance	$10,989		$19,821		$19,821	
Less: Charge-offs	2,539		5,903		4,206	
Add: Recoveries	623		398		9	
Provision for Loan Losses	326		(3,327	)	784	
Ending Balance	$9,399		$10,989		$16,408	
Ratios:						
Net charge-offs to average loans outstanding	0.52	%	1.35	%	0.99	%
Allowance to total loans	2.36	%	2.97	%	4.32	%
Allowance to non-performing loans	51.81	%	35.88	%	46.94	%

The Company recorded a $505 thousand negative provision for loan losses for the three months ended September 30, 2013, compared to a $560 thousand provision for the prior year quarter. Net charge-offs of $413 thousand were recognized compared to $2.8 million in the prior year period. Charge-offs in both periods were primarily related to impaired loans and loans moved to held-for-sale ("HFS"). The Company recorded a $326 thousand provision for loan losses for the six month period, compared to $784 thousand for the prior year period. For the six months ended September 30, 2013, net charge-offs of $1.9 million

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were recognized compared to $4.2 million in the prior year period. Charge-offs in both periods were primarily related to impaired loans and loans that moved to held-for-sale ("HFS").

At September 30, 2013, non-accrual loans totaled $18.1 million, or 2.86% of total assets compared to $30.6 million or 4.8% of total assets at March 31, 2013. The ALLL was $9.4 million at September 30, 2013, which represents a ratio of the ALLL to non-accrual loans of 51.8% compared to $11.0 million at March 31, 2013 which represents a ratio of 35.9%. The ratio of the ALLL to total loans was 2.4% at September 30, 2013, a decrease from 3.0% at March 31, 2013.

Non-performing Assets

Non-performing assets consist of non-accrual 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 non-accrual 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 September 30, 2013, loans classified as TDR totaled $15.5 million, of which $10.9 million were classified as performing. At March 31, 2013, loans classified as TDR totaled $21.7 million, of which $5 million were classified as performing.

At September 30, 2013, non-performing assets totaled $27.0 million, or 4.25% of total assets compared to $46.1 million, or 7.23% of total assets at March 31, 2013.

The following table sets forth information with respect to the Bank's non-performing assets for the past five quarter-end periods:
CARVER BANCORP, INC. AND SUBSIDIARIES
Non Performing Asset Table

$ in thousands	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Loans accounted for on a non-accrual basis [(1)]:					
Gross loans receivable:					
One-to-four family	$4,343	$6,666	$7,642	$7,249	$6,094
Multi-family	758	659	423	483	1,724
Commercial real estate	10,503	8,091	14,788	18,872	14,145
Construction	75	693	1,230	1,230	4,258
Business	2,457	3,350	6,505	7,718	8,717
Consumer	4	—	38	14	15
Total non-accrual loans	18,140	19,459	30,626	35,566	34,953
Other non-performing assets [(2)]:					
Real estate owned	970	946	2,386	2,996	2,119
Loans held-for-sale	7,854	9,709	13,107	18,991	26,830
Total other non-performing assets	8,824	10,655	15,493	21,987	28,949
Total non-performing assets [(3)]	$26,964	$30,114	$46,119	$57,553	$63,902
Accruing loans contractually past maturity > 90 days [(4)]	$62	$111	$—	$—	$884
Non-performing loans to total loans	4.55 %	5.47 %	8.27 %	9.76 %	9.20 %
Non-performing assets to total assets	4.25 %	4.75 %	7.23 %	8.98 %	10.01 %

[(1)] Non-accrual 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 non-accrual 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. During the six month period ended September 30, 2013, 13 non-performing loans with a fair value of $7.1 million were moved to held-for-sale.
[(2)] 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 non-accrual and are included in the non-accrual category in the table above. At September 30, 2013, there were $10.9 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 which have FICO scores of 660 or less). At September 30, 2013, the Bank had $10.8 million in subprime loans, or 2.7% of its total loan portfolio, of which $1.9 million are non-performing loans.

Non-Interest Income

Non-interest income for the three months ended September 30, 2013 decreased $857 thousand, or 35.2%, to $1.6 million, compared to $2.4 million for the prior year quarter. The decrease was due to the prior year period being positively impacted by $625 thousand in new markets tax credit (NMTC) fees, and losses on sales of real estate owned and lower of cost or market adjustments on loans held-for-sale in the current period.

Non-interest income increased $332 thousand, or 9.8%, to $3.7 million for the six months ended September 30, 2013, compared to $3.4 million for the prior year period. The increase is attributable to gains on sale of securities and increases in the Bank's depository and loan fees, partially offset by NMTC fees in the prior year period.

Non-Interest Expense

Non-interest expense decreased $291 thousand to $6.6 million for the three months ended September 30, 2013, compared to $6.9 million for the prior year quarter. Non-interest expense was lower in all categories except Other, with the largest decreases in data processing, as we consolidate vendor contracts, and net equipment expenses.
Non-interest expense decreased $1.6 million, or 12.2%, to $11.9 million for the six month period ended September 30, 2013, compared to $13.5 million in the prior year period. The decrease is attributed to lower expenses including a reduction of $705 thousand in reserves for losses associated with the repurchase of mortgage loans sold by the Bank to Fannie Mae, and lower employee compensation expenses of $410 thousand following staff reductions.

Income Tax Expense

The income tax expense was $16 thousand for the the three months ended September 30, 2013, compared to $36 thousand for the three months ended September 30, 2012. The effective rate for the three months ended September 30, 2013 was 4.47% compared to (35.64%) for the same period last year. The increase in the effective rate was a result of a higher level of pre-tax income projected in the 2013 period compared to the prior year period.

The income tax expense was $88 thousand for the six month period ended September 30, 2013, compared to $196 thousand for the prior year period.

Item 3. 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 September 30, 2013, 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 upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have 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 are parties to various legal proceedings incident to their business. Certain claims, suits, complaints and investigations (collectively "proceedings") involving the Company and the Bank, 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 and the Bank in these proceedings, that it has meritorious defenses to each proceeding and the Company and the Bank are taking appropriate measures to defend their interests.

Carver Federal was a defendant in one lawsuit brought by a purported fifty percent loan participant on a multifamily loan, alleging gross negligence and breach of contract in the manner in which Carver Federal serviced the loan. This matter was settled in July 2013.

In another matter, in September 2010, the New York State Department of Labor ("DOL") Unemployment Insurance Division, based on claims for unemployment benefits made by two individuals formerly engaged as independent contractors by Carver Federal, determined that these two individuals were employees and not independent contractors for Unemployment Insurance purposes. Carver Federal requested a hearing before the Unemployment Insurance Appeal Board ("Appeal Board"). On July 18, 2011, an Appeal Board's Administrative Judge sustained the DOL's determination. Carver Federal continues to believe it has a meritorious case and has filed an appeal with the Appeals Board.

In a more recent matter, in June 2012, a former employee of Carver Federal filed a complaint with the NY State Division of Human Rights ("DHR"), alleging termination due to unlawful employment discrimination due to disability, race/color or ethnicity and retaliation for filing for disability. The DHR subsequently dismissed the case to afford the Plaintiff the opportunity to pursue the matter in U.S. District Court. A settlement conference was held in June 2013, whereby a settlement of that action was agreed and entered into by both parties.

In accordance with ASC Topic 450, Carver has accrued $30,000 for these lawsuits.

The legal settlements made in June and July did not have a material impact on the financial condition of the Company.

Item 1A. Risk Factors

The following risk factors represent material updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013 ("Form 10-K"). The risk factors below should be read in conjunction with the risk factors and other information disclosed in our Form 10-K. The risks described below and in our Form 10-K are not the only risks facing the Company. Additional risks not presently known to the Company, or that we currently deem immaterial, may also adversely affect the Company's business, financial condition or results of operations.

An investment in our securities is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below, in addition to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2013.

Carver's prospective regulatory capital requirements remain uncertain and there is a risk that the Company will be unable to meet these new standards in the time frame expected by the market or regulators.

In July 2013, the Federal Deposit Insurance Corporation and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets), and assigns a higher risk-weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Additional constraints will also be imposed on the inclusion in regulatory capital of mortgage-servicing assets, deferred tax assets and minority interests. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. The Company is evaluating the rules and the impact it will have on the Bank.

Carver's results of operations may be adversely affected by loan repurchases from U.S. Government Sponsored entities (“GSE's”)

In connection with the sale of loans, Carver as the loan originator is required to make a variety of representations and warranties regarding the originator and the loans that are being sold. If a loan does not comply with the representations and warranties, Carver may be obligated to repurchase the loans, and in doing so, incur any loss directly. Prior to December 31, 2009, the Bank originated and sold loans to the Federal National Mortgage Association (“FNMA”). During fiscal years 2012-2014, the Bank has been obligated to repurchase 17 loans previously sold to FNMA. There is no assurance that the Bank will not be required to repurchase additional loans in the future. Accordingly, any repurchase obligations to FNMA could materially and adversely affect the Bank's results of operations and earnings in the future.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
(a) No Company unregistered securities were sold by the Company during the quarter ended September 30, 2013.
(b) Not applicable.
(c) None.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information
Not applicable.

Item 6. Exhibits

The following exhibits are submitted with this report:

3.1	Certificate of Incorporation of Carver Bancorp, Inc. (1)
3.2	Certificate of Amendment to the Certificate of Incorporation of Carver Bancorp, Inc. (2)
3.3	Second Amended and Restated Bylaws of Carver Bancorp, Inc. (3)
4.1	Stock Certificate of Carver Bancorp, Inc. (1)
4.2	Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (4)
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 September 30, 2013, formatted in XBRL (Extensive Business Reporting Language): (i) the Consolidated Statements of Financial Condition as of September 30, 2013 and March 31, 2013; (ii) Consolidated Statements of Operations for the three and six months ended September 30, 2013 and 2012; (iii) Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended September 30, 2013 and 2012; (iv) Consolidated Statements of Changes in Stockholders' Equity for the six months ended September 30, 2013 and 2012; (v) Consolidated Statements of Cash Flows for the six months ended September 30, 2013 and 2012; 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) 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 January 22, 2009.

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: November 12, 2013	/s/ Deborah C. Wright Deborah C. Wright Chairman and Chief Executive Officer (Principal Executive Officer)
Date: November 12, 2013	/s/ David L. Toner David L. Toner First Senior Vice President and Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)