CARVER BANCORP INC
Form 10-Q
February 13, 2014

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

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

For the quarterly period ended December 31, 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 February 11, 2014
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	December 31, 2013 (unaudited)	March 31, 2013
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$109,238	$98,083
Money market investments	9,059	6,563
Total cash and cash equivalents	118,297	104,646
Restricted cash	6,556	10,666
Investment securities:		
Available-for-sale, at fair value	84,602	116,051
Held-to-maturity, at amortized cost (fair value of $12,092 and $9,629 at December 31, 2013 and March 31, 2013, respectively)	12,089	9,043
Total investments	96,691	125,094
Loans held-for-sale (“HFS”)	7,678	13,107
Loans receivable:		
Real estate mortgage loans	364,820	334,594
Commercial business loans	28,188	35,281
Consumer loans	155	247
Loans, net	393,163	370,122
Allowance for loan losses	(8,415)	(10,989)
Total loans receivable, net	384,748	359,133
Premises and equipment, net	8,016	8,597
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	4,226	3,503
Accrued interest receivable	2,620	2,247
Other assets	9,812	11,284
Total assets	$638,644	$638,277
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES:		
Deposits:		
Savings	$94,648	$98,066
Non-interest bearing checking	58,186	58,239
NOW	24,883	25,927
Money market	115,820	113,259
Certificates of deposit	190,446	200,225
Total deposits	483,983	495,716
Advances from the FHLB-NY and other borrowed money	95,403	76,403
Other liabilities	8,830	9,423
Total liabilities	588,216	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 December 31, 2013 and March 31, 2013, respectively)	61	61
Additional paid-in capital	56,114	55,708
Accumulated deficit	(43,803)	(44,439)
Non-controlling interest	(223)	141
Treasury stock, at cost (1,944 shares at December 31, 2013 and March 31, 2013)	(417)	(417)
Accumulated other comprehensive (loss) income	(6,422)	563
Total stockholders' equity	50,428	56,735
Total liabilities and stockholders' equity	$638,644	$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 December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Interest income:				
Loans	$5,412	$5,325	$15,590	$16,398
Mortgage-backed securities	247	215	796	783
Investment securities	313	349	1,009	857
Money market investments	32	38	121	156
Total interest income	6,004	5,927	17,516	18,194
Interest expense:				
Deposits	694	868	2,078	2,750
Advances and other borrowed money	285	342	888	1,033
Total interest expense	979	1,210	2,966	3,783
Net interest income	5,025	4,717	14,550	14,411
Provision for (recovery of) loan losses	(1,052)	(398)	(726)	386
Net interest income after provision for loan losses	6,077	5,115	15,276	14,025
Non-interest income:				
Depository fees and charges	852	964	2,642	2,652
Loan fees and service charges	133	170	736	565
Gain on sale of securities	21	60	507	60
Gain on sales of loans, net	98	1,109	768	1,714
Loss on sale of real estate owned	(149)	—	(280)	(288)
New Market Tax Credit ("NMTC") fees	—	—	—	625
Lower of cost or market adjustment on loans held-for-sale	—	—	(232)	—
Other	255	238	775	587
Total non-interest income	1,210	2,541	4,916	5,915
Non-interest expense:				
Employee compensation and benefits	3,317	2,819	8,331	8,243
Net occupancy expense	887	910	2,634	2,684
Equipment, net	298	314	682	889
Data processing	244	326	826	842
Consulting fees	119	63	331	243
Federal deposit insurance premiums	313	320	929	994
Other	2,357	2,552	5,682	6,933
Total non-interest expense	7,535	7,304	19,415	20,828
(Loss) / income before income taxes	(248)	352	777	(888)
Income tax expense	6	68	94	264
Consolidated net (loss) / income	(254)	284	683	(1,152)
Less: Net (loss) / income attributable to non-controlling interest	(147)	(190)	36	(1,126)
Net (loss) / income attributable to Carver Bancorp, Inc.	$(107)	$474	$647	$(26)

Earnings/(loss) per common share:				
Basic	$(0.03)	$0.13	$0.18	$(0.01)
Diluted	$(0.03)	$0.13	$0.18	$(0.01)

See accompanying notes to consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
($ in thousands)	2013	2012	2013	2012
Net (loss) / income attributable to Carver Bancorp, Inc.	$(107)	$474	$647	$(26)
Other comprehensive (loss) / income, net of tax:				
Change in unrealized gain/loss of securities available-for-sale	(1,567)	135	(6,979)	437
Change in pension obligations	69	—	69	(302)
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax	—	—	507	—
Reclassification adjustment for termination of pension plan, net of tax	(432)	—	(432)	—
Total other comprehensive (loss)/income, net of tax	(1,066)	135	(6,985)	135
Total comprehensive (loss)/income, net of tax attributable to Carver Bancorp, Inc.	$(1,173)	$609	$(6,338)	$109

See accompanying notes to consolidated financial statements

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the nine months ended December 31, 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 attributable to Carver Bancorp, Inc.	—	—	—	—	—	647	—	647
Other comprehensive loss, net of taxes	—	—	—	—	—	—	(6,985)	(6,985)
Transfer between non-controlling and controlling Interest	—	—	400	—	(400)	—	—	—
Income attributable to non-controlling interest	—	—	—	—	36	—	—	36
Treasury stock and other activity	—	—	6	—	—	(11)	—	(5)
Balance — December 31, 2013	$45,118	$61	$56,114	$(417)	$(223)	$(43,803)	$(6,422)	$50,428

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended December 31,	
($ in thousands)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss) before attribution to noncontrolling interests	$683	$(1,152)
Net income/(loss) attributable to noncontrolling interests, net of taxes	36	(1,126)
Net income/(loss) attributable to Carver Bancorp, Inc.	647	(26)
Adjustments to reconcile net income/(loss) to net cash (used in) provided by operating activities:		
Provision for loan losses	(726)	386
Stock based compensation expense	1	—
Depreciation and amortization expense	819	844
Loss on real estate owned	280	288
Gain on sale of securities, net	(507)	(60)
Gain on sale of loans, net	(768)	(1,714)
Amortization and accretion of loan premiums and discounts and deferred charges	(1,266)	(308)
Amortization and accretion of premiums and discounts — securities	(359)	723
Market adjustment on held-for-sale loans	232	—
Proceeds from sale of loans held-for-sale	14,673	20,576
Assets repurchased from third parties	(1,932)	(1,952)
Increase in accrued interest receivable	(373)	(103)
Decrease in other assets	1,649	2,125
(Decrease) increase in other liabilities	(556)	83
Net cash provided by operating activities	11,814	20,862
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities: Available-for-sale	(30,180)	(53,855)
Proceeds from principal payments, maturities, calls and sales of securities: Available-for-sale	49,899	28,767
Proceeds from principal payments, maturities and calls of securities: Held-to-maturity	2,072	1,488
Originations of loans held-for-investment	(50,124)	(17,366)
Loans purchased from third parties	(54,459)	—
Principal collections on loans	72,299	50,674
Proceeds on sale of loans	242	1,718
Decrease in restricted cash	4,110	—
Purchase of FHLB-NY stock	(723)	(1,200)
Purchase of premises and equipment	(232)	(156)
Proceeds from sale of real estate owned	1,666	195
Net cash (provided by) used in investing activities	(5,430)	10,265
CASH FLOW FROM FINANCING ACTIVITIES		
Net decrease in deposits	(11,733)	(30,948)
Net increase in FHLB-NY advances and other borrowings	19,000	29,974
Net cash provided by (used in) financing activities	7,267	(974)
Net increase in cash and cash equivalents	13,651	30,153
Cash and cash equivalents at beginning of period	104,646	91,697

Cash and cash equivalents at end of period	$118,297	$121,850
Supplemental cash flow information:		
Noncash financing and investing activities		
Transfers from loans held-for-investment to loans held-for-sale	$9,001	$8,884
Transfers to real estate owned	$1,296	$951
Cash paid for-		
Interest	$2,669	$3,480
Income taxes	$130	$49

See accompanying notes to consolidated financial statements

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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., CCDC, and CFSB Credit Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ended March 31, 2014. The consolidated balance sheet at December 31, 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 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.

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.

If not classified as held-to-maturity or trading, 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.

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) income.

During the nine months ended December 31, 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 are only moved to held-for-sale classification upon the determination by Carver to sell a loan. Held-for-sale loans are carried at the lower of cost or market value. The initial charge off, if any is required, will be taken upon the move to held-for-sale and absorbed through Carver's loan loss reserve. The need to further charge offs is periodically evaluated if the loan remains classified as held-for-sale for an extended period of time using the valuation methodologies identified below. Any subsequently required charge off is processed as a mark to market adjustment. The valuation methodology for loans held-for-sale varies based upon the circumstances. Held-for-sale values may be based upon accepted offer amounts, appraised value of underlying mortgaged premises, prior loan loss experience of Carver in connection with recent loan sales for the loan type in question, and/or other acceptable valuation methods.

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. Generally 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, 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”) Subtopics 450-20 “Disclosure of Certain Loss Contingencies” and 310-10 “Accounting by Creditors for Impairment of a Loan.” Compliance with the Interagency Policy Statement includes management's review of the Bank's loan portfolio, including the identification and review of 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 Subtopic 450-20 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 six quarters as a percentage of each respective Loan Type plus qualitative factors. This represents a change in methodology as the Bank previously utilized a four quarter historical trend. The rationale for the change is to adopt a more comprehensive loss period. 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 non-accrual loans, and the volume and severity of adversely classified loans (Problem Assets).
6. Changes in the quality of the loan review system (Loan Review).
7. Changes in the value of underlying collateral for collateral-dependent loans (Collateral Values).
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations (Concentrations).
9. The effect of other external forces such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio (External Forces).

Specific Reserve Allowance

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

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

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

Criticized and Classified loans with at risk balances of $500,000 or more and loans below $500,000 that the Chief Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC 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 a specific valuation allowance (“SVA”) reserve equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the loan's original effective interest rate, and the loan's original carrying value. For a collateral dependent loan, the Company records an impairment charge when the current estimated fair value of the property that collateralizes the impaired loan, if any, is less than the recorded investment in the loan. TDR loans remain on 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 (GSEs). The Bank may be required to repurchase these loans in the event of breaches of these representations and warranties. In the event of a repurchase, the Bank is typically required to pay the unpaid principal balance as well as outstanding interest and fees. The Bank then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The Bank is exposed to any losses on repurchased loans after giving effect to any recoveries on the collateral.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
$ in thousands	2013	2012	2013	2012
(Loss) / earnings per common share				
Net (loss) / income available to common shareholders of Carver Bancorp, Inc.	$(107)	$474	$647	$(26)
Weighted average common shares outstanding	3,696,225	3,695,653	3,696,123	3,695,616
Basic (loss) / earnings per common share	$(0.03)	$0.13	$0.18	$(0.01)
Diluted (loss) / earnings per common share	$(0.03)	$0.13	$0.18	$(0.01)

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”). On October 18, 2011, Carver received approval from the Federal Reserve Bank to pay all outstanding dividend payments (which included $192 thousand accrued during the six month period ended September 30, 2011) on the Company's Series B preferred stock issued under the TARP CPP. There are no assurances that the payments of dividends on the common stock will resume.

Debenture interest payments which had previously been deferred in March 2011 and June 2011 on the Carver Statutory Trust I trust preferred securities (“TruPS”) were brought current in September 2011 before the regulators precluded future payments without prior approval. The expense continues to be accrued and the payments remain on deferral status.

On October 28, 2011, the Treasury exchanged the CDCI Series B preferred stock for 2,321,286 shares of Carver common stock and the Series C preferred stock converted into 1,208,039 shares of Carver common stock and 45,118 shares of Series D preferred stock. Series C stock was previously reported as Mezzanine equity, and upon conversion to common and Series D preferred stock is now reported as 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 (LOSS) INCOME

The following table sets forth changes in each component of accumulated other comprehensive (loss) / income, net of tax for the nine months ended December 31, 2013:

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Nine months ended December 31, 2013 $ in thousands	At March 31, 2013	Other Comprehensive Income	At December 31, 2013
Net unrealized gain (loss) on securities available-for-sale	$1,064	$(7,486)	$(6,422)
Net unrealized loss on pension liability	(501)	501	—
Accumulated other comprehensive income (loss)	$563	$(6,985)	$(6,422)

The following table sets forth information about amounts reclassified from accumulated other comprehensive income (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 (Loss) Three Months Ended December 31, 2013	Nine Months Ended December 31, 2013	Affected Line Item in the Consolidated Statement of Operations
Reclassification adjustment for sales of available for-sale securities, net of tax	$—	$507	Gain on sale of securities
Reclassification adjustment for termination of pension plan, net of tax	(432)	(432)	Employee compensation and benefits
Total reclassifications for the period	$(432)	$75	

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 December 31, 2013, $84.6 million, or 87.5%, of the Bank’s mortgage-backed and other investment securities were classified as available-for-sale, and the remaining $12.1 million, or 12.5%, were classified as held-to-maturity. The Bank had no securities classified as trading at December 31, 2013.

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

$ in thousands	Amortized Cost	Gross Unrealized Gains	Losses	Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$6,036	$—	$(369)	$5,667
Federal Home Loan Mortgage Corporation	13,642	—	(662)	12,980
Federal National Mortgage Association	11,124	—	(582)	10,542
Other	49	—	—	49
Total mortgage-backed securities	30,851	—	(1,613)	29,238
U.S. Government Agency Securities	50,187	—	(4,300)	45,887
CRA investment fund	10,000	—	(523)	9,477
Total available-for-sale	91,038	—	(6,436)	84,602
Held-to-Maturity *:				
Mortgage-backed securities:				
Government National Mortgage Association	4,069	230	—	4,299
Federal Home Loan Mortgage Corporation	1,794	66	—	1,860
Federal National Mortgage Association	6,226	68	(361)	5,933
Total held-to-maturity mortgage-backed securities	12,089	364	(361)	12,092
Total securities	$103,127	$364	$(6,797)	$96,694

* 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 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	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
CRA investment fund	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		