CARVER BANCORP INC
Form 10-Q
November 10, 2015

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, 2015

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 9, 2015
Common Stock, par value $0.01	3,696,087

TABLE OF CONTENTS

Exhibit 32.1
Exhibit 32.2
Exhibit 101

PART I. FINANCIAL INFORMATION

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

$ in thousands except per share data	September 30, 2015 (unaudited)	March 31, 2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$56,919	$44,864
Money market investments	753	6,128
Total cash and cash equivalents	57,672	50,992
Restricted cash	154	6,354
Investment securities:		
Available-for-sale, at fair value	75,760	101,185
Held-to-maturity, at amortized cost (fair value of $16,311 and $12,231 at September 30, 2015 and March 31, 2015, respectively)	16,087	11,922
Total investment securities	91,847	113,107
Loans held-for-sale (“HFS”)	2,586	2,576
Loans receivable:		
Real estate mortgage loans	485,916	412,204
Commercial business loans	76,766	70,555
Consumer loans	89	434
Loans, net	562,771	483,193
Allowance for loan losses	(4,572)	(4,477)
Total loans receivable, net	558,199	478,716
Premises and equipment, net	6,882	7,075
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	3,558	3,519
Accrued interest receivable	3,516	2,781
Other assets	12,322	11,266
Total assets	$736,736	$676,386
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Savings	$92,174	$95,009
Non-interest bearing checking	56,854	50,731
Interest-bearing checking	31,898	30,860
Money market	163,832	148,702
Certificates of deposit	239,258	200,123
Mortgagors deposits	2,278	2,336
Total deposits	586,294	527,761
Advances from the FHLB-NY and other borrowed money	83,403	83,403
Other liabilities	11,819	10,243
Total liabilities	681,516	621,407
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; 3,698,031 shares issued; 3,696,087 shares outstanding at September 30, 2015 and March 31, 2015, respectively)	61	61
Additional paid-in capital	55,470	55,468
Accumulated deficit	(44,194)	(44,206)
Treasury stock, at cost (1,944 shares at September 30, 2015 and March 31, 2015)	(417)	(417)
Accumulated other comprehensive loss	(818)	(1,045)
Total equity	55,220	54,979
Total liabilities and equity	$736,736	$676,386

See accompanying notes to consolidated financial statements

1

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

	Three Months Ended September 30,		Six Months Ended September 30,	
$ in thousands	2015	2014	2015	2014
Interest income:				
Loans	$6,174	$5,000	$11,816	$10,162
Mortgage-backed securities	197	192	388	398
Investment securities	341	329	682	653
Money market investments	18	69	53	135
Total interest income	6,730	5,590	12,939	11,348
Interest expense:				
Deposits	781	719	1,557	1,441
Advances and other borrowed money	312	273	594	543
Total interest expense	1,093	992	2,151	1,984
Net interest income	5,637	4,598	10,788	9,364
Provision for (recovery) loan losses	643	(713)	761	(1,494)
Net interest income after provision for loan losses	4,994	5,311	10,027	10,858
Non-interest income:				
Depository fees and charges	809	924	1,477	1,820
Loan fees and service charges	170	118	342	213
Gain on sale of securities	1	—	1	4
Gain (loss) on sale of loans, net	—	(2)	—	(2)
Gain on real estate owned	—	—	18	4
Lower of cost or market adjustment on loans held-for-sale	—	1	—	1
Other	151	521	486	725
Total non-interest income	1,131	1,562	2,324	2,765
Non-interest expense:				
Employee compensation and benefits	2,729	2,999	5,510	5,787
Net occupancy expense	1,125	959	2,121	1,844
Equipment, net	164	252	326	427
Data processing	232	43	581	320
Consulting fees	145	309	313	398
Federal deposit insurance premiums	133	115	255	353
Other	1,683	2,076	3,140	4,170
Total non-interest expense	6,211	6,753	12,246	13,299
(Loss) income before income taxes	(86)	120	105	324
Income tax expense	79	57	93	73
Consolidated net (loss) income	(165)	63	12	251
Less: Net loss attributable to non-controlling interest	—	(147)	—	(130)
Net (loss) income attributable to Carver Bancorp, Inc.	$(165)	$210	$12	$381

Earnings (loss) per common share:

Basic	$(0.04	) $0.06	$—	$0.10
Diluted	(0.04	) 0.06	—	0.10

See accompanying notes to consolidated financial statements

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

	Three Months Ended September 30,		Six Months Ended September 30,	
$ in thousands	2015	2014	2015	2014
Net (loss) income attributable to Carver Bancorp, Inc.	$(165)	$210	$12	$381
Other comprehensive income, net of tax:				
Change in unrealized loss of securities available-for-sale	1,096	150	228	1,713
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax	1	—	1	4
Total other comprehensive income, net of tax	1,095	150	227	1,709
Total comprehensive income, net of tax attributable to Carver Bancorp, Inc.	$930	$360	$239	$2,090

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended September 30, 2015
(Unaudited)

($ in thousands)	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance — March 31, 2015	$45,118	$61	$55,468	$ (44,206)	$(417)	$ (1,045)	$54,979
Net income attributable to Carver Bancorp, Inc.	—	—	—	12	—	—	12
Other comprehensive income, net of taxes	—	—	—	—	—	227	227
Stock based compensation expense	—	—	2	—	—	—	2
Balance — September 30, 2015	$45,118	$61	$55,470	$ (44,194)	$(417)	$ (818)	$55,220

See accompanying notes to consolidated financial statements

4

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

	Six Months Ended September 30,	
($ in thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before attribution to noncontrolling interest	12	251
Net loss attributable to noncontrolling interest, net of taxes	—	(130)
Net income attributable to Carver Bancorp, Inc.	12	381
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	761	(1,494)
Stock based compensation expense	2	2
Depreciation and amortization expense	498	531
Gain on real estate owned	(18)	(4)
Gain on sale of securities, net	(1)	(4)
Gain on sale of loans, net	—	2
Amortization and accretion of loan premiums and discounts and deferred charges	(1,664)	(678)
Amortization and accretion of premiums and discounts — securities	24	140
Market adjustment on held-for-sale loans	—	(1)
Proceeds from sale of loans held-for-sale	730	—
Increase in accrued interest receivable	(735)	(622)
(Increase) decrease in other assets	649	3,457
Increase (decrease) in other liabilities	2,007	(1,300)
Net cash provided by operating activities	2,265	410
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments: Available-for-sale	—	(10,534)
Purchases of securities: Held-to-maturity	(5,117)	—
Proceeds from principal payments, maturities, calls and sales of investments: Available-for-sale	25,554	6,867
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	1,028	362
Originations of loans held-for-investment	(53,986)	(26,024)
Loans purchased from third parties	(63,978)	(24,355)
Principal collections on loans	35,890	29,722
Decrease in restricted cash	6,200	—
Redemption of FHLB-NY stock	(39)	527
Purchases of premises and equipment	(305)	(222)
Proceeds from sale of real estate owned	636	—
Net cash used in investing activities	(54,117)	(23,657)
CASH FLOW FROM FINANCING ACTIVITIES		
Net increase in deposits	58,532	11,044
Net decrease in FHLB-NY advances and other borrowings	—	(8,000)
Net cash provided by (used in) financing activities	58,532	3,044
Net increase (decrease) in cash and cash equivalents	6,680	(20,203)
Cash and cash equivalents at beginning of period	50,992	122,554
Cash and cash equivalents at end of period	$57,672	$102,351

Supplemental cash flow information:		
Noncash financing and investing activities		
Transfers to real estate owned	$—	$2,434
Cash paid for:		
Interest	$1,927	$1,727
Income taxes	$86	$88

See accompanying notes to consolidated financial statements

5

CARVER BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
NOTE 1. ORGANIZATION

Nature of operations

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

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

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

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

On February 7, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (the “Bank Order” and the "Company Order," respectively, and together the "Orders") with the Office of Thrift Supervision (“OTS”). The OTS issued these Orders based upon its findings that the Company was operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it was operating with an excessive level of adversely classified assets, and earnings inadequate to augment its capital. Effective July 21, 2011, supervisory authority for the Company Order passed to the Board of Governors of the Federal Reserve System (the "Federal Reserve") and supervisory authority for the Bank Order passed to the Office of the Comptroller of the Currency (“OCC”). On November 3, 2014, the OCC notified the Bank that the OCC had determined that the Bank had satisfied all of the requirements of the Bank Order and directed that the Bank Order be terminated. In addition, the OCC notified the Bank that the OCC had determined that the Bank was no longer in “troubled condition” and was relieved of all prior conditions imposed on the Bank by the OTS as a result of its troubled condition designation. On September 24, 2015, the Federal Reserve notified the Company that the Company Order had been terminated and that the Company was no longer in "troubled condition."

On October 23, 2015, the Board of Directors of the Company adopted resolutions requiring, among other things, written approval from the Federal Reserve Bank of Philadelphia prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock.

On June 29, 2011, the Company raised $55 million of capital by issuing 55,000 shares of mandatorily convertible non-voting participating preferred stock, Series C (the “Series C preferred stock”). The issuance resulted in a $51.4 million increase in equity after considering the effect of various expenses associated with the capital raise. The capital raise enabled the Company to make a capital injection of $37 million in the Bank on June 30, 2011. In December

2011, another $7 million capital injection was made in the Bank. The remainder of the net capital raised is retained by the Company for future strategic purposes or to downstream into the Bank, if necessary. No assurances can be given that the amount of capital raised is sufficient to absorb the expected losses in the Bank's loan portfolio. Should the losses be greater than expected, additional capital may be necessary in the future.

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ended March 31, 2016. The consolidated balance sheet at September 30, 2015 has been derived from the unaudited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended March 31, 2015. 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.

NOTE 3. EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30,		Six Months Ended September 30,	
$ in thousands except per share data	2015	2014	2015	2014
Earnings per common share				
	$(165)	$210	12	381

Net (loss) income available to common shareholders of Carver Bancorp, Inc.				
Weighted average common shares outstanding	3,696,420	3,696,370	3,696,420	3,696,297
Basic earnings per common share	$(0.04)	$0.06	$—	$0.10
Diluted earnings per common share	(0.04)	0.06	—	0.10

NOTE 4. COMMON STOCK DIVIDENDS

On October 23, 2015, the Board of Directors of the Company adopted resolutions requiring, among other things, written approval from the Federal Reserve Bank of Philadelphia prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock.

Debenture interest payments which had previously been deferred in March 2011 and June 2011 on the Carver Statutory Trust I trust preferred securities (“TruPS”) were brought current in September 2011. The Company is prohibited from making future payments without prior approval. The expense continues to be accrued and the payments remain on deferral status. The Company has requested approval from the Federal Reserve to reinstate the debenture interest payment. This request remains pending.

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

NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth changes in each component of accumulated other comprehensive loss, net of tax for the six months ended September 30, 2015 and 2014:

Six months ended September 30, 2015 $ in thousands	At March 31, 2015	Other Comprehensive Income, net of tax	At September 30, 2015
Net unrealized loss on securities available-for-sale	$(1,045)	$227	$(818)
Accumulated other comprehensive loss, net of tax	$(1,045)	$227	$(818)

Six months ended September 30, 2014 $ in thousands	At March 31, 2014	Other Comprehensive Income, net of tax	At September 30, 2014
Net unrealized loss on securities available-for-sale	$(4,768)	$1,709	$(3,059)
Accumulated other comprehensive loss, net of tax	$(4,768)	$1,709	$(3,059)

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.

	For the Three Months Ended September 30,		For the Six Months Ended September 30,		Affected Line Item in the Consolidated Statement of
$ in thousands	2015	2014	2015	2014	Operations
Reclassification adjustment for sales of available-for-sale securities, net of tax	1	—	1	4	Gain on sale of securities
Total reclassifications for the period	$1	$—	$1	$4	

NOTE 6. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC Subtopic 320-10-25 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At September 30, 2015, $75.8 million, or 82.5%, of the Bank's total securities were classified as available-for-sale, and the remaining $16.1 million, or 17.5%, were classified as held-to-maturity. The Bank had no securities classified as trading at September 30, 2015 and March 31, 2015.

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at September 30, 2015:

	Amortized	Gross Unrealized		Estimated
$ in thousands	Cost	Gains	Losses	Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$5,169	$18	$(5)	$5,182
Federal Home Loan Mortgage Corporation	8,398	—	(127)	8,271
Federal National Mortgage Association	8,449	—	(77)	8,372
Other	46	—	—	46
Total mortgage-backed securities	22,062	18	(209)	21,871
U.S. Government Agency Securities	43,533	25	(418)	43,140
Other investments	10,983	—	(234)	10,749
Total available-for-sale	76,578	43	(861)	75,760
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	2,657	167	—	2,824
Federal National Mortgage Association and Other	12,430	84	(27)	12,487
Total held-to-maturity mortgage-backed securities	15,087	251	(27)	15,311
Corporate Bonds	1,000	—	—	1,000
Total held-to maturity	16,087	251	(27)	16,311
Total securities	$92,665	$294	$(888)	$92,071

* 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, 2015:

	Amortized	Gross Unrealized		Estimated
$ in thousands	Cost	Gains	Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$5,575	$9	$(57)	$5,527
Federal Home Loan Mortgage Corporation	10,705	10	(127)	10,588
Federal National Mortgage Association	10,925	35	(103)	10,857
Other	47	—	—	47
Total mortgage-backed securities	27,252	54	(287)	27,019
U.S. Government Agency Securities	58,464	48	(662)	57,850
Other investments	16,514	—	(198)	16,316
Total available-for-sale	102,230	102	(1,147)	101,185
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	3,100	232	—	3,332
Federal National Mortgage Association and Other	8,822	77	—	8,899
Total held-to-maturity mortgage-backed securities	11,922	309	—	12,231
Other	—	—	—	—
Total held-to-maturity	11,922	309	—	12,231
Total securities	$114,152	$411	$(1,147)	$113,416

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

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at September 30, 2015 for less than 12 months and 12 months or longer:

9

$ in thousands	Less than 12 months Unrealized Losses	Fair Value	12 months or longer Unrealized Losses	Fair Value	Total Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$—	$—	$(209)	$17,836	$(209)	$17,836
U.S. Government Agency Securities	(3)	4,997	(415)	26,117	(418)	31,114
Other investments [1]	—	—	(234)	9,766	(234)	9,766
Total available-for-sale securities	(3)	4,997	(858)	53,719	(861)	58,716
Held-to-Maturity:						
Mortgage-backed securities	(27)	2,901	—	—	(27)	2,901
Total held-to-maturity securities	(27)	2,901	—	—	(27)	2,901
Total securities	$(30)	$7,898	$(858)	$53,719	$(888)	$61,617

[1] CRA fund comprised of over 95% agency securities.

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at March 31, 2015 for less than 12 months and 12 months or longer:

$ in thousands	Less than 12 months Unrealized Losses	Fair Value	12 months or longer Unrealized Losses	Fair Value	Total Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$—	$—	$(287)	$22,297	$(287)	$22,297
U.S. Government Agency Securities	(57)	12,943	(605)	26,400	(662)	39,343
Other investments [1]	—	—	(198)	9,802	(198)	9,802
Total available-for-sale securities	(57)	12,943	(1,090)	58,499	(1,147)	71,442

[1] CRA fund comprised of over 95% agency securities.

A total of 21 securities had an unrealized loss at September 30, 2015 compared to 23 at March 31, 2015. U.S. Government Agency securities and mortgage-backed securities, represented 53.0% and 30.4%, respectively, of total available-for-sale securities in an unrealized loss position at September 30, 2015. There were ten U.S. Government Agency securities and seven mortgage-backed securities in an unrealized loss position that had an unrealized loss for more than 12 months at September 30, 2015. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, the risk of credit loss is minimal. Management believes that these unrealized losses are a direct result of the current rate environment and has the ability and intent to hold the securities until maturity or the valuation recovers.

The amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Company will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). At September 30, 2015, 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, 2015, 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	9,983	9,965	1.44	%
Five through ten years	19,183	18,891	1.99	%
After ten years	47,412	46,904	1.56	%
Total	$76,578	$75,760	1.65	%
Held-to-maturity:				
Five through ten years	$7,076	$7,188	3.00	%
After ten years	9,011	9,123	2.51	%
Total	$16,087	$16,311	2.72	%

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

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

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

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, 2015 and March 31, 2015:

	September 30, 2015			March 31, 2015		
$ in thousands	Amount	Percent		Amount	Percent	
Gross loans receivable:						
One-to-four family	$127,572	23	%	$125,020	26	%
Multifamily	108,340	19	%	93,780	19	%
Commercial real estate	242,156	43	%	186,443	39	%
Construction	5,099	1	%	5,107	1	%
Business (1)	76,896	14	%	70,679	15	%
Consumer (2)	89	—	%	434	—	%
Total loans receivable	$560,152	100	%	$481,463	100	%
Add:						
Premium on loans	3,102			2,233		
Less:						
Deferred fees and loan discounts,net	(483	)		(503	)	
Allowance for loan losses	(4,572	)		(4,477	)	
Total loans receivable, net	$558,199			$478,716		

Loans HFS	$2,586	$2,576

(1) Includes business overdrafts

(2) Includes personal loans and consumer overdrafts

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the three and six month periods ended September 30, 2015 and 2014, and the fiscal year ended March 31, 2015.

Three months ended September 30, 2015

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$1,659	$525	$1,032	99	$791	$1	$4,107
Charge-offs	13	3	—	—	8	259	283
Recoveries	1	—	3	—	95	6	105
Provision for (Recovery of) Loan Losses	(52)	51	401	—	(35)	278	643
Ending Balance	$1,595	$573	$1,436	$99	$843	$26	$4,572

Six months ended September 30, 2015

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$1,989	$534	$1,029	99	$813	$13	$4,477
Charge-offs	243	241	—	—	120	260	864
Recoveries	1	—	3	—	188	6	198
Provision for (Recovery of) Loan Losses	(152)	280	404	—	(38)	267	761
Ending Balance	$1,595	$573	$1,436	$99	$843	$26	$4,572
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	1,498	573	1,436	99	743	26	4,375
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	97	—	—	—	100	—	197
Loan Receivables Ending Balance:	$128,855	$109,287	$242,707	$5,067	$76,766	$89	$562,771
Ending Balance: collectively evaluated for impairment	121,925	108,046	240,845	5,067	71,100	89	547,072
Ending Balance: individually evaluated for impairment	6,930	1,241	1,862	—	5,666	—	15,699

Fiscal year ended March 31, 2015

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$3,377	$308	$1,835	$—	$1,705	$8	$7,233
Charge-offs	687	—	—	—	320	279	1,286
Recoveries	380	83	256	—	816	5	1,540
Provision for (Recovery of) Loan Losses	(1,081)	143	(1,062)	99	(1,388)	279	(3,010)
Ending Balance	$1,989	$534	$1,029	$99	$813	$13	$4,477
Allowance for Loan Losses Ending Balance: collectively	1,702	353	953	99	801	13	3,921

evaluated for impairment							
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	287	181	76	—	12	—	556
Loan Receivables Ending Balance:	$126,527	$94,706	$185,851	$5,076	$70,599	$434	483,193
Ending Balance: collectively evaluated for impairment	119,480	93,218	183,230	5,076	65,243	434	466,681
Ending Balance: individually evaluated for impairment	7,047	1,488	2,621	—	5,356	—	16,512

Three months ended September 30, 2014

	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$3,923	$336	$813	$201	$1,780	$13	$7,066
Charge-offs	—	—	—	—	—	—	—
Recoveries	25	74	53	—	90	2	244
Provision for (Recovery of) Loan Losses	(647)	(38)	288	13	(335)	6	(713
Ending Balance	$3,301	$372	$1,154	$214	$1,535	$21	$6,597

Six months ended September 30, 2014

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$3,377	$308	$1,835	$—	$1,705	$8	$7,233
Charge-offs	83	—	—	—	—	—	83
Recoveries	379	82	254	—	223	3	941
Provision for (Recovery of) Loan Losses	(372)	(18)	(935)	214	(393)	10	(1,494)
Ending Balance	$3,301	$372	$1,154	$214	$1,535	$21	$6,597
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	2,110	201	1,149	214	916	20	4,610
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	1,191	171	5	—	619	1	1,987
Loan Receivables Ending Balance:	$119,142	$54,098	$190,573	$5,075	$41,194	$353	$410,435
Ending Balance: collectively evaluated for impairment	112,350	52,606	186,324	5,075	36,721	343	393,419
Ending Balance: individually evaluated for impairment	6,792	1,492	4,249	—	4,473	10	17,016

The following is a summary of nonaccrual loans at September 30, 2015 and March 31, 2015.

$ in thousands	September 30, 2015	March 31, 2015
Gross loans receivable:		
One-to-four family	$3,251	$3,664
Multifamily	1,241	1,053
Commercial real estate	—	2,817
Construction	—	—
Business	1,992	861
Consumer	—	—
Total nonaccrual loans	$6,484	$8,395

Nonaccrual loans decreased $1.9 million, or 22.8%, to $6.5 million at September 30, 2015 from $8.4 million at March 31, 2015.

Non-performing loans at September 30, 2015, were comprised of $4.9 million of loans 90 days or more past due and nonaccruing, $1.6 million of impaired loans and $1.0 million of loans classified as troubled debt restructurings which had either not consistently performed in accordance with their modified terms or were not performing in accordance with their modified terms for at least six months.

Non-performing loans at March 31, 2015, were comprised of $5.9 million of loans 90 days or more past due and non-accruing, and included $3.6 million of loans classified as troubled debt restructurings which had either not consistently performed in accordance with their modified terms or were not performing in accordance with their modified terms for at least six months.

At September 30, 2015, other non-performing assets totaled $6.3 million which consisted of other real estate owned and held-for-sale loans. At September 30, 2015, other real estate owned valued at $3.7 million comprised of eight foreclosed properties, compared to $4.3 million comprised of ten properties at March 31, 2015. At September 30, 2015, held-for-sale loans totaled $2.6 million.

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, 2015, the risk category by class of loans is as follows:

$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$108,046	$233,495	$5,067	$68,557
Special Mention	—	2,197	—	1,551
Substandard	1,241	7,015	—	6,658
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$109,287	$242,707	$5,067	$76,766

	One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:		
Performing	$125,506	$89
Non-Performing	3,349	—
Total	$128,855	$89

As of March 31, 2015, and based on the most recent analysis performed, the risk category by class of loans is as follows:

14

$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$93,218	$181,340	$5,076	$62,419
Special Mention	—	1,890	—	1,065
Substandard	1,488	2,621	—	7,115
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$94,706	$185,851	$5,076	$70,599

	One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:		
Performing	$122,689	$434
Non-Performing	3,838	—
Total	$126,527	$434

The following table presents an aging analysis of the recorded investment of past due financing receivable as of September 30, 2015 and March 31, 2015.

September 30, 2015

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Financing Receivables
One-to-four family	$253	$319	$2,839	$3,411	$125,444	$128,855
Multifamily	—	425	816	1,241	108,046	109,287
Commercial real estate	—	3,460	—	3,460	239,247	242,707
Construction	—	—	—	—	5,067	5,067
Business	—	873	1,268	2,141	74,625	76,766
Consumer	—	3	—	3	86	89
Total	$253	$5,080	$4,923	$10,256	$552,515	$562,771

March 31, 2015

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables
One-to-four family	$464	$—	$3,574	$4,038	$122,489	126,527
Multifamily	—	434	1,054	1,488	93,218	94,706
Commercial real estate	1,150	936	1,102	3,188	182,663	185,851
Construction	—	—	—	—	5,076	5,076
Business	—	—	123	123	70,476	70,599
Consumer	—	1	—	1	433	434
Total	$1,614	$1,371	$5,853	$8,838	$474,355	$483,193

The following table presents information on impaired loans with the associated allowance amount, if applicable, at September 30, 2015 and March 31, 2015.

$ in thousands	At September 30, 2015 Recorded Investment	Unpaid Principal Balance	Associated Allowance	At March 31, 2015 Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:						
One-to-four family	$5,273	$6,535	$—	$2,752	$3,007	—
Multifamily	1,241	1,580	—	237	237	—
Commercial real estate	1,862	2,030	—	1,880	1,880	—
Business	2,585	1,869	—	4,568	4,652	—
With an allowance recorded:						
One-to-four family	1,657	1,657	97	4,295	4,541	286
Multifamily	—	—	—	1,251	1,349	181
Commercial real estate	—	—	—	741	741	76
Business	3,081	3,164	100	788	788	13
Total	$15,699	$16,835	$197	$16,512	$17,195	$556

The following tables presents information on average balances on impaired loans and the interest income recognized on a cash basis for the three and six month period ended September 30, 2015 and 2014.

	For the Three Months Ended September 30,				For the Six Months Ended September 30,			
	2015		2014		2015		2014	
$ in thousands	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
With no specific allowance recorded:								
One-to-four family	$5,281	$2	$728	$2	$5,306	$5	$797	$9
Multifamily	609	6	157	—	1,325	6	128	—
Commercial real estate	1,866	—	3,311	53	1,867	—	3,776	114
Construction	—	—	—	—	—	—	—	—
Business	2,593	21	954	14	2,608	29	1,198	78
Consumer and other	—	—	—	—	—	—	—	
With an allowance recorded:								
One-to-four family	1,660	2	6,068	56	1,663	4	6,010	87
Multifamily	—	—	1,339	6	—	—	1,338	15
Commercial real estate	—	—	948	19	—	—	523	39
Business	3,098	—	3,537	23	3,141	—	—	78
Consumer and other	—	—	11	—	—	—	3,446	—
Total	$15,107	$31	$17,053	$173	$15,910	$44	$17,216	$420

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

The following table presents an analysis of those loan modifications that were classified as TDRs during the three and six month period ended September 30, 2015.

	Modifications to loans during the three month period ended September 30, 2015							Modifications to loans during the six month period ended September 30, 2015						
$ 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	1	96	96	2.63	%	2.63	%	1	$ 96	$ 96	2.63	%	2.63	%

16

The following table presents an analysis of those loan modifications that were classified as TDRs during the three and six month period ended September 30, 2014.

$ in thousands	Modifications to loans during the three month period ended September 30, 2014					Modifications to loans during the six month period ended September 30, 2014				
	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
Commercial real estate	1	$ 873	$ 856	6.60 %	6.60 %	1	$ 873	$ 856	6.60 %	6.60 %

In an effort to proactively resolve delinquent loans, Carver has selectively extended to certain borrowers concessions such as extensions, rate reductions or forbearance agreements. For the periods ended September 30, 2015 and 2014, there were no modified loans that subsequently defaulted within the last 12 months. For the three and six month period ended September 30, 2015, one loan of $96 thousand was modified. For the three and six month period ended September 30, 2014, one loan of $856 thousand was extended.

At September 30, 2015, there were 15 loans in the TDR portfolio totaling $6.5 million that were on accrual status as the Company has determined that future collection of the principal and interest is reasonably assured. These have generally performed according to restructured terms for a period of at least six months. At March 31, 2015, there were 12 loans in the performing TDR portfolio totaling $4.6 million.

At September 30, 2015, the Bank had one Regulation O loan of $1.5 million to a director. This loan was made on the same terms as other loans and in accordance with underwriting procedures used for other loans, and does not involve more than the normal risk of repayment, and does not present other unfavorable terms. There were no loans to officers or directors of the Company at September 30, 2014.

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, 2015 and March 31, 2015, and that are included in the Company’s Consolidated Statements of Financial

Condition at these dates:

17

$ in thousands	Fair Value Measurements at September 30, 2015, 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	$—	$—	$205	205
Investment securities				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—	5,182	—	5,182
Federal Home Loan Mortgage Corporation	—	8,271	—	8,271
Federal National Mortgage Association	—	8,372	—	8,372
Other		—	46	46
U.S. Government Agency Securities	—	43,140	—	43,140
Other investments	—	10,749	—	10,749
Total available-for-sale securities	—	75,714	46	75,760
Total	$—	$75,714	$251	$75,965

$ in thousands	Fair Value Measurements at March 31, 2015, 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	$—	$—	$210	210
Investment securities				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—	5,527	—	5,527
Federal Home Loan Mortgage Corporation	—	10,588	—	10,588
Federal National Mortgage Association	—	10,857	—	10,857
Other	—	—	47	47
U.S. Government Agency securities	—	57,850	—	57,850
Other investments	—	16,316	—	16,316
Total available-for-sale securities	—	101,138	47	101,185
Total	$—	$101,138	$257	$101,395

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights (“MSR”) and certain mortgage-backed securities. Level 3 assets accounted for 0.03% of the Company’s total assets measured at fair value at September 30, 2015 and at March 31, 2015.

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

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

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

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

In the three and six month period ended September 30, 2015, there were not any transfers of investments into or out of each level of the fair value hierarchy.

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

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

The following table includes a rollforward of assets classified by the Company within Level 3 of the valuation hierarchy for the six months ended September 30, 2015 and 2014:

$ in thousands	Beginning balance, April 1, 2015	Total Realized/Unrealized Gains/(Losses) Recorded in Income [1]	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, September 30, 2015	Unrealized Gains and (Losses) Related to Instruments Held at September 30, 2015
Securities Available-for-Sale	$47	$ —	$ (1)	$—	$46	$—
Mortgage servicing rights	210	(5)	—	—	205	(4)

$ in thousands	Beginning balance, April 1, 2014	Total Realized/Unrealized Gains/(Losses) Recorded in Income [1]	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, September 30, 2014	Unrealized Gains and (Losses) Related to Instruments Held at September 30, 2014
Securities Available-for-Sale	$49	$ —	$ (1)	$—	$48	$—
Mortgage servicing rights	265	(26)	—	—	239	(25)

[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, 2015 and March 31, 2015, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

Fair Value Measurements at September 30, 2015, 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	$—	$2,586	$—	$2,586
Impaired loans with a specific reserve allocated	$—	$—	$4,540	$4,540
Other real estate owned	$—	$3,723	$—	$3,723

	Fair Value Measurements at March 31, 2015, 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	$—	$2,576	$—	$2,576
Impaired loans with a specific reserve allocated	$—	$—	$6,519	$6,519
Other real estate owned	$—	$4,341	$—	$4,341

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, 2015 was based upon amounts offered, or other acceptable valuation methods and, in some instances, prior loan loss experience of the Bank in connection with recent note sales.

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

Other real estate owned represents property acquired by the Bank in settlement of loans less costs to sell (i.e., through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value. At the time of acquisition of the real estate owned, the real property value is adjusted to its current fair value. Any subsequent adjustments will be to the lower of cost or market.

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, 2015 and March 31, 2015 are as follows:

$ in thousands	September 30, 2015 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	$57,672	$57,672	$57,672	$—	$—
Restricted cash	154	154	—	154	—
Securities available-for-sale	75,760	75,760	—	75,714	46
FHLB Stock	3,558	3,558	—	3,558	—
Securities held-to-maturity	16,087	16,311	—	16,311	—
Loans receivable	558,199	564,494	—	—	564,494
Loans held-for-sale	2,586	2,586	—	2,586	—
Accrued interest receivable	3,516	3,516	—	3,516	—
Mortgage servicing rights	205	205	—	—	205
Financial Liabilities:					
Deposits	586,294	569,378	328,721	240,657	—
Advances from FHLB of New York	65,000	65,668	—	65,668	—
Other borrowed money	18,403	19,594	—	19,594	—

$ in thousands	March 31, 2015 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	$50,992	$50,992	$50,992	$—	$—
Restricted cash	6,354	6,354	—	6,354	—
Securities available-for-sale	101,185	101,185	—	101,138	47
FHLB Stock	3,519	3,519	—	3,519	—
Securities held-to-maturity	11,922	12,231	—	12,231	—
Loans receivable	478,716	485,458	—	—	485,458
Loans held-for-sale	2,576	2,576	—	2,576	—
Accrued interest receivable	2,781	2,781	—	2,781	—
Mortgage servicing rights	210	210	—	—	210
Financial Liabilities:					
Deposits	527,761	511,160	309,897	201,263	—
Advances from FHLB of New York	65,000	65,827	—	65,827	—
Other borrowed money	18,403	18,931	—	18,931	—

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

FHLB-NY Stock

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

Loans Receivable

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

Loans Held-for-Sale

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

Accrued Interest Receivable

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

Mortgage Servicing Rights

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

Deposits

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

FHLB-NY Advances and Other Borrowed Money

The fair values of advances from the FHLB-NY and other borrowed money are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities and are classified as Level 2.

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

The fair value of the commitments to extend credit was estimated to be immaterial as of September 30, 2015 and March 31, 2015. The fair value of commitments to extend credit and standby letters of credit was evaluated using fees currently charged to enter into similar agreements, taking into account the risk characteristics of the borrower, and estimated to be insignificant as of the reporting date.

NOTE 10. IMPACT OF RECENT ACCOUNTING STANDARDS NOT YET ADOPTED

In January 2014, the FASB issued ASU No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments clarify when an in-substance repossession or foreclosure occurs, and require disclosure of both the amount of foreclosed residential real estate property held by a creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for annual periods, and interim periods within annual periods beginning after December 15, 2015. The adoption of ASU 2014-04 is not expected to have a material impact on the Company's consolidated statement of financial condition or results of operations. At September 30, 2015, Carver had 17 loans secured by one-to-four family residential real estate in the process of foreclosure for a total outstanding balance of $3.1 million.

In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis.” The amendments are intended to clarify consolidation guidance for legal entities such as limited partnerships and limited liability companies and simplify consolidation accounting by reducing the number of consolidation models. ASU No. 2015-02 is effective for periods beginning after December 15, 2015. The adoption of the standard is not expected to have a material impact on the Company’s consolidated statement of financial condition or results of operations.

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

Forward-Looking Statements

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

- the limitations imposed on the Company by board resolutions which require, among other things, written approval of the Federal Reserve Bank of Philadelphia prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock, and the effect on operations resulting from such limitations;

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

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

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

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

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

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

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

- changes in the level of government support of housing finance;

23

- the Company’s success in implementing new business initiatives, including expanding its product line, adding new branches and ATM centers and successfully building its brand image;
- our ability to control costs and expenses;
- risks related to a high concentration of loans to borrowers secured by property located in our market area;
- changes in interest rates, which may reduce net interest margin and net interest income;
- increases in competitive pressure among financial institutions or non-financial institutions;
- changes in consumer spending, borrowing and savings habits;
- technological changes that may be more difficult to implement or more costly than anticipated;
- changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities, which may adversely affect our business;
- changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies or the Financial Accounting Standards Board could negatively impact the Company's financial results;
- litigation or regulatory actions, whether currently existing or commencing in the future, which may restrict our operations or strategic business plan;
- the ability to originate and purchase loans with attractive terms and acceptable credit quality; and
- the ability to attract and retain key members of management, and to address staffing needs in response to product demand or to implement business initiatives.

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

Overview

Carver Bancorp, Inc. is the holding company for Carver Federal Savings 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 Carver Federal. Carver Federal was founded in 1948 to serve African-American communities whose residents, businesses and institutions had limited access to mainstream financial services. The Bank remains headquartered in Harlem, and predominantly all of its ten branches and four stand-alone 24/7 ATM centers are located in low- to moderate-income neighborhoods. Many of these historically underserved communities have experienced unprecedented growth and diversification of incomes, ethnicity and economic opportunity, after decades of public and private investment.

Carver Federal is the largest African-American operated bank in the United States. The Bank remains dedicated to expanding wealth enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank's third consecutive "Outstanding" rating, issued by the OCC following its most recent Community Reinvestment Act (“CRA”) examination in December 2012. As of December 2012, approximately 78% of newly originated loans were within Carver's assessment area, and the Bank has demonstrated excellent responsiveness to its assessment area's needs through its community development lending, investing and service activities. The Bank had approximately $736.7 million in assets and 125 employees as of September 30, 2015.

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

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

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

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

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

New Markets Tax Credit Award

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

In June 2006, CCDC was selected by the U.S. Department of Treasury, in a highly competitive process, to receive an award of $59 million in NMTC. 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 March 2015, the investor exercised its option to sell the equity interest in the entities back to Carver. CCDC provides funding to the underlying projects. While providing funding to investments in the NMTC eligible projects, CCDC has retained a 0.01% interest in other special purpose entities created to facilitate the investments, with the investors owning the remaining 99.99%. CCDC also provides certain administrative services to these entities and receives servicing fee income during the term of the qualifying projects. The Bank has determined that it and CCDC do not have the sole power to direct activities of these special purpose entities that significantly impact the entities' performance, and therefore are not the primary beneficiaries of these entities. The Bank has a contingent obligation to reimburse the investors for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the investors' ability to otherwise utilize tax credits stemming from the award. As of September 30, 2015, all three award allocations have been fully utilized in qualifying projects.

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

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 (1) 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	5,106	—	5,106	—	—	—	7,800	7,800
CDE 10 (2)	1,700	19,000	—	—	—	—	—	—	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	—	20,703	20,703	—	2	—	7,995	7,997
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,169	5,170
CDE 19	500	10,746	—	10,931	10,931	—	1	—	4,191	4,192
CDE 20	625	12,500	—	12,174	12,174	—	1	—	4,875	4,876
CDE 21	625	12,500	—	12,226	12,226	—	1	—	4,875	4,876
Total	$ 5,850	$ 149,000	$ 5,106	$ 103,396	$ 108,502	$ 13,000	$ 408	$—	$ 50,310	$ 63,718

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

(2) Entity dissolved May 2015.

Critical Accounting Policies

Note 2 to the Company's audited Consolidated Financial Statements for the year ended March 31, 2015 included in its 2015 Form 10-K, as supplemented by this report, contains a summary of significant accounting policies. The Company believes its policies, with respect to the methodologies used to determine the allowance for loan and lease losses, securities impairment, 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 2015 Form 10-K.

Allowance for Loan and Lease Losses

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

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is significant judgment applied in estimating the ALLL. These assumptions and estimates are susceptible to significant changes based on the current environment. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio.

General Reserve Allowance

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

- 1-4 Family
- Multifamily
- Commercial Real Estate
- Construction
- Business Loans
- SBA Loans
- Other (Consumer and Overdraft Accounts)

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

- Pass
- Special Mention
- Substandard
- Doubtful

The Bank next applies to each pool a risk factor that determines the level of general reserves for that specific pool. The Bank estimates its historical charge-offs via a lookback analysis. The actual historical loss experience by major loan category is expressed as a percentage of the outstanding balance of all loans within the category. As the loss experience for a particular loan category increases or decreases, the level of reserves required for that particular loan category also increases or decreases. The Bank’s historical charge-off rate reflects the period over which the charge-offs were confirmed and recognized, not the period over which the earlier losses occurred. That is, the charge-off rate measures the confirmation of losses over a period that occurs after the earlier actual losses. During the period between the loss-causing events and the eventual confirmations of losses, conditions may have changed. There is always a time lag between the period over which average charge-off rates are calculated and the date of the financial statements. During that period, conditions may have changed. Another factor influencing the General Reserve is the Bank’s loss emergence period ("LEP") assumptions which represent the Bank’s estimate of the average amount of time from the point at which a loss is incurred to the point at which the loss is confirmed, either through the identification of the loss or a charge-off. The Bank generally considers coverage of one year’s losses an appropriate benchmark for most pools of loans because the probable loss on any given pool should ordinarily become apparent in that time frame. While in some instances, the Bank may be able to demonstrate a reliance on an LEP less than 12 months coverage, based upon adequate management information systems and effective methodologies for estimating losses, management has decided to put a floor of one year on all LEP. In some segments such as in its Commercial Real Estate, Multifamily and Business the Bank demonstrates an LEP in excess of 12 months. The Bank also recognizes losses in accordance with regulatory charge-off criteria.

Because actual loss experience may not adequately predict the level of losses inherent in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be adjusted based upon any of those factors. As the risk ratings worsen, some of the qualitative factors tend to increase. The nine qualitative factors the Bank considers and may utilize are:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses (Policy & Procedures).
2. Changes in relevant economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (Economy).
3. Changes in the nature or volume of the loan portfolio and in the terms of loans (Nature & Volume).
4. Changes in the experience, ability, and depth of lending management and other relevant staff (Management).
5. Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans (Problem Assets).
6. Changes in the quality of the loan review system (Loan Review).

7. Changes in the value of underlying collateral for collateral dependent loans (Collateral Values).
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations (Concentrations).
9. The effect of other external forces such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio (External Forces).

Specific Reserve Allowance

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

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

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

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

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

Troubled Debt Restructured Loans

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

Securities Impairment

The Bank’s available-for-sale securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive (loss) income. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The fair values of securities in portfolio are based on published or securities dealers’ market values and are affected by changes in interest rates. On a quarterly basis, the Bank reviews and evaluates the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. The Bank generally views changes in fair value caused by changes in interest rates as temporary, which is consistent with its experience. The amount of an other-than-temporary impairment, when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Bank will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security’s amortized cost basis and its fair value would be included in other comprehensive (loss) income. This guidance also requires additional disclosures about investments in an unrealized loss position and the methodology and significant inputs used in determining the recognition of other-than-temporary impairment. At September 30, 2015, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

Deferred Tax Assets

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

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

Stock Repurchase Program

On August 6, 2002, the Company announced a stock repurchase program to repurchase up to 15,442 shares of its outstanding common stock. As of September 30, 2015, 11,744 shares of its common stock have been repurchased in open market transactions at an average price of $235.80 per share (as adjusted for 1-for-15 reverse stock split that occurred on October 27, 2011). The Company intends to use repurchased shares to fund its stock-based benefit and compensation plans and for any other purpose the Board deems advisable in compliance with applicable law. No shares were repurchased during the three months ended September 30, 2015. As a result of the Company's participation in the TARP CDCI, the U.S. Treasury's prior approval is required to make further repurchases. As discussed below, the U.S. Treasury converted its preferred stock into common stock, which the U.S. Treasury continues to hold. The Company continues to be bound by the TARP CDCI restrictions so long as the U.S. Treasury is a common stockholder.

Liquidity and Capital Resources

Liquidity is a measure of the Bank's ability to generate adequate cash to meet its financial obligations. The principal cash requirements of a financial institution are to cover potential deposit outflows, fund increases in its loan and investment portfolios and ongoing operating expenses. The Bank's primary sources of funds are deposits, borrowed funds and principal and interest payments on loans, mortgage-backed securities and investment securities. While maturities and scheduled amortization of loans, mortgage-backed securities and investment securities are predictable sources of funds, deposit flows and loan and mortgage-backed securities prepayments are strongly influenced by changes in general interest rates, economic conditions and competition. Carver Federal monitors its liquidity utilizing guidelines that are contained in a policy developed by its management and approved by its Board of Directors. Carver Federal's several liquidity measurements are evaluated on a frequent basis. The Bank was in compliance with this policy as of September 30, 2015.

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 totaled $83.4 million at September 30, 2015. At September 30, 2015, $65.0 million of the Bank's borrowings with a weighted average rate of 0.82% was scheduled to mature over the next three years. The continued disruption in the credit markets has not materially impacted the Company's ability to access borrowings. At September 30, 2015, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional $25.6 million on a secured basis, utilizing mortgage-related loans and securities as collateral.

The Bank's most liquid assets are cash and short-term investments. The level of these assets is dependent on the Bank's operating, investing and financing activities during any given period. At September 30, 2015 and March 31, 2015, assets qualifying for short-term liquidity, including cash and cash equivalents, totaled $57.7 million and $51.0 million, respectively.

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

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During the six months ended September 30, 2015, total cash and cash equivalents increased $6.7 million to $57.7 million at September 30, 2015, compared to $51.0 million at March 31, 2015, reflecting cash provided by financing activities of $58.5 million, cash provided by operating activities of $2.3 million, and cash used in investing activities of $54.1 million.

Net cash provided by financing activities of $58.5 million resulted from a net increase in deposits of $58.5 million. Net cash used in investing activities of $54.1 million was primarily attributed to loan originations and purchases of $118.0 million, offset by loan principal repayments of $35.9 million and investment calls and maturities of $25.6 million. Net cash provided by operating activities totaled $2.3 million during the quarter.

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, 2015 (dollars in thousands):

	Tier 1 Leverage			Common Tier 1			Tier 1 Risk-Based Capital			Total Risk-Based Capital		
$ in thousands	Amount	Ratio		Amount	Ratio		Amount	Ratio		Amount	Ratio	
Regulatory capital	$67,714	10.35	%	$67,714	13.42	%	$67,714	13.42	%	$75,308	14.92	%
Minimum capital requirement	26,179	4.00	%	22,708	4.50	%	30,277	6.00	%	40,370	8.00	%
Excess	41,535	6.35	%	45,006	8.92	%	37,437	7.42	%	34,938	6.92	%

Bank Regulatory Matters

On February 7, 2011, the Bank and the Company consented to enter into the Bank Order and the Company Order with the OTS. The OTS issued these Orders based upon its findings that the Bank and the Company were operating with an inadequate level of capital for the volume, type and quality of assets held by the Bank and the Company, that they were operating with an excessive level of adversely classified assets, and that their earnings were inadequate to augment its capital. The Bank Order included a capital directive requiring the Bank to achieve and maintain minimum regulatory capital levels. On November 3, 2014, the OCC notified the Bank that the OCC had determined that the Bank had satisfied all of the requirements of the Bank Order and directed that the Bank Order be terminated. In addition, the OCC notified the Bank that the OCC had determined that the Bank was no longer in "troubled condition" and was relieved of all prior conditions imposed on the Bank by the OTS as a result of its troubled condition designation. On September 24, 2015, the Federal Reserve notified the Company that the Company Order had been terminated and that the Company was no longer in troubled condition.

On October 23, 2015, the Board of Directors of the Company adopted resolutions requiring, among other things, written approval from the Federal Reserve Bank of Philadelphia prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock.

At September 30, 2015, the Bank's capital level exceeded the regulatory requirements with a Tier 1 leverage capital ratio of 10.35%, Common Tier 1 capital ratio of 13.42%, Tier 1 risk-based capital ratio of 13.42%, and a total risk-based capital ratio of 14.92%.

Mortgage Representation and Warranty Liabilities

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

Through fiscal 2011 none of the loans sold to FNMA were repurchased by the Bank. During fiscal 2012, 2013, 2014 and 2015 three, ten, six and one loan, respectively, that had been sold to FNMA were repurchased by the Bank. There were no repurchases during the first six months of fiscal 2016. At September 30, 2015, the Bank continues to service 143 loans with a principal balance of $26.2 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, 2015 [1]	$2,045
Gross new demands received	—
Loans repurchased/made whole	—
Demands rescinded	—
Principal payments received on open claims	(14)
Open claims as of September 30, 2015 [1]	$2,031

[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 the consolidated statement of financial condition as a component of other liabilities. The reserves totaled $458 thousand as of September 30, 2015.

The table below summarizes changes in our representation and warranty reserves during the six months ended September 30, 2015:

$ in thousands	September 30, 2015
Representation and warranty repurchase reserve, March 31, 2015 [1]	$406
Net provision for repurchase losses [2]	52
Net realized losses [2]	—
Representation and warranty repurchase reserve, September 30, 2015[1]	$458

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

Comparison of Financial Condition at September 30, 2015 and March 31, 2015

Assets

At September 30, 2015, total assets were $736.7 million, reflecting an increase of $60.4 million, or 8.9%, from total assets of $676.4 million at March 31, 2015. This change was primarily driven by an increase of $79.5 million in the loan portfolio net of the allowance for loan losses, partially offset by a decrease of $21.3 million in the investment portfolio.

Restricted cash decreased $6.2 million, or 97.6%, to $154 thousand at September 30, 2015, compared to $6.4 million at March 31, 2015. The Federal Home Loan Bank released its restriction on the $6.2 million resulting largely from the release of the Cease and Desist Order and the Bank's improved position.

Total investment securities decreased $21.3 million, or 18.8%, to $91.8 million at September 30, 2015, compared to $113.1 million at March 31, 2015, as cash generated from calls and sales of securities was redeployed into higher yielding loans.

Net loans receivable increased $79.6 million, or 16.5%, to $562.8 million at September 30, 2015, compared to $483.2 million at March 31, 2015, following growth in mortgage and business loans from loan purchases and originations.

Loans held-for-sale ("HFS") increased $10 thousand to $2.6 million at September 30, 2015.

Liabilities and Equity

Total liabilities increased $60.1 million, or 9.7%, to $681.5 million at September 30, 2015, compared to $621.4 million at March 31, 2015, following growth in deposits.

Deposits increased $58.5 million, or 11.1%, to $586.3 million at September 30, 2015, compared to $527.8 million at March 31, 2015, due primarily to increases in certificates of deposits and money market accounts.

Advances from the Federal Home Loan Bank of New York and other borrowed money remained unchanged at $83.4 million at September 30, 2015.

Total equity increased $241 thousand, or 0.4%, to $55.2 million at September 30, 2015, compared to $55.0 million at March 31, 2015. The increase was primarily driven by a $227 thousand decrease in unrealized losses on investments and net income for 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 assets, and the credit quality of earning assets. Management's asset/liability objectives are to maintain a strong, stable net interest margin, to utilize the Company's capital effectively without taking undue risks, to maintain adequate liquidity and to manage its exposure to changes in interest rates.

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

Off-Balance Sheet Arrangements and Contractual Obligations

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and in connection with its overall investment strategy. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are not recorded in the consolidated financial statements. Such instruments primarily include lending obligations, including commitments to originate mortgage and consumer loans and to fund unused lines of credit.
The Bank has contractual obligations related to operating leases as well as a contingent liability related to a standby letter of credit as discussed in our Form 10-K for the year ended March 31, 2015.

The following table reflects the Bank's outstanding lending commitments and contractual obligations as of September 30, 2015:

$ in thousands	
Commitments to fund mortgage loans	$31,162
Commitments to fund commercial and consumer loans	3,700
Lines of credit	9,015
Letters of credit	234
Total	$44,111

Comparison of Operating Results for the Three and Six Months Ended September 30, 2015 and 2014

Overview

The Company reported a net loss of $165 thousand for the three months ended September 30, 2015, compared to net income of $210 thousand for the prior year quarter. For the six months ended September 30, 2015, the Company reported net income of $12 thousand, compared to net income of $381 thousand for the prior year period. In both periods, the change in our results was driven by provision for loan losses in the current periods compared to recoveries of loan losses in the prior year periods. In addition, lower non-interest income, partially offset by higher net interest income contributed to the results.

The following table reflects selected operating ratios for the three and six months ended September 30, 2015 and 2014 (unaudited):

	Three Months Ended September 30,		Six Months Ended September 30,	
Selected Financial Data:	2015	2014	2015	2014
Return on average assets [1]	(0.09)%	0.14%	—%	0.12%
Return on average stockholders' equity [2] [8]	(1.21)%	1.57%	0.04%	1.42%
Return on average stockholders' equity, excluding AOCI [2] [8]	(1.18)%	1.49%	0.04%	1.34%
Net interest margin [3]	3.37%	3.04%	3.26%	3.08%
Interest rate spread [4]	3.27%	2.93%	3.16%	2.95%
Efficiency ratio [5] [8]	91.77%	109.63%	93.40%	109.65%
Operating expenses to average assets [6]	3.55%	4.35%	3.55%	4.27%
Average stockholders' equity to average assets [7] [8]	7.80%	8.61%	7.92%	8.59%
Average stockholders' equity, excluding AOCI, to average assets [7] [8]	7.97%	9.09%	8.11%	9.11%
Average interest-earning assets to average interest-bearing liabilities	1.15x	1.18x	1.16x	1.20x

(1) Net income, annualized, divided by average total assets.
(2) Net income, 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 expense divided by sum of net interest income and non-interest income.
(6) Non-interest expense, annualized, divided by average total assets.
(7) Total average stockholders' equity divided by total average assets for the period.
(8) See Non-GAAP Financial Measures disclosure for comparable GAAP measures.

Non-GAAP Financial Measures

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
$ in thousands	2015	2014	2015	2014
Average Stockholders' Equity				
Average Stockholders' Equity	$54,641	$53,529	$54,686	$53,478
Average AOCI	(1,209)	(2,985)	(1,338)	(3,209)
Average Stockholders' Equity, excluding AOCI	$55,850	$56,514	$56,024	$56,687
Return on Average Stockholders' Equity	(1.21)%	1.57%	0.04%	1.42%
Return on Average Stockholders' Equity, excluding AOCI	(1.18)%	1.49%	0.04%	1.34%
Average Stockholders' Equity to Average Assets	7.80%	8.61%	7.92%	8.59%
Average Stockholders' Equity, excluding AOCI, to Average Assets	7.97%	9.09%	8.11%	9.11%

Analysis of Net Interest Income

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

Net interest income increased $1.0 million, or 22.6%, to $5.6 million for the quarter, compared to $4.6 million for the prior year quarter. Net interest income increased $1.4 million, or 15.2%, to $10.8 million for the six months ended September 30, 2015, compared to $9.4 million for the prior year period. Increases in each period were driven primarily by loan portfolio growth.

The following table sets forth certain information relating to the Company’s average interest-earning assets and average interest-bearing liabilities, and their related average yields and costs for the three months ended September 30, 2015 and 2014. Average yields are derived by dividing annualized income or expense by the average balances of assets or liabilities, respectively, for the periods shown. Average balances are derived from daily or month-end balances as available and applicable. Management does not believe that the use of average monthly balances instead of average daily balances represents a material difference in information presented. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yield and cost include fees, which are considered adjustments to yields.

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

	For the Three Months Ended September 30,					
	2015			2014		
$ in thousands	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-Earning Assets:						
Loans [1]	$526,751	$6,174	4.69 %	$393,167	$5,000	5.09 %
Mortgage-backed securities	39,843	197	1.98 %	36,006	192	2.13 %
Investment securities	47,988	250	2.08 %	52,976	252	1.90 %
Restricted cash deposit	4,477	—	0.03 %	6,354	1	0.03 %
Equity securities [2]	3,349	34	4.03 %	1,823	18	3.92 %
Other investments and federal funds sold	46,844	75	0.64 %	113,752	127	0.44 %
Total interest-earning assets	669,252	6,730	4.02 %	604,078	5,590	3.70 %
Non-interest-earning assets	31,120			17,546		
Total assets	$700,372			$621,624		
Interest-Bearing Liabilities:						
Deposits						
Interest-bearing checking	$32,312	$14	0.17 %	$27,346	$11	0.16 %
Savings and clubs	93,419	63	0.27 %	96,844	65	0.27 %
Money market	159,377	203	0.51 %	141,376	175	0.49 %
Certificates of deposit	213,918	501	0.93 %	198,891	461	0.92 %
Mortgagors deposits	1,929	—	— %	1,719	7	1.62 %
Total deposits	500,955	781	0.62 %	466,176	719	0.61 %
Borrowed money	78,990	312	1.57 %	43,610	273	2.48 %
Total interest-bearing liabilities	579,945	1,093	0.75 %	509,786	992	0.77 %
Non-interest-bearing liabilities						
Demand	51,243			51,667		
Other liabilities	14,543			6,996		
Total liabilities	645,731			568,449		
Non-controlling interest	—			(354)		
Stockholders' equity	54,641			53,529		
Total liabilities and equity	$700,372			$621,624		
Net interest income		$5,637			$4,598	
Average interest rate spread			3.27 %			2.93 %
Net interest margin			3.37 %			3.04 %

[1] Includes nonaccrual loans
[2] Includes FHLB-NY stock

35

	For the Six Months Ended September 30,					
	2015			2014		
$ in thousands	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-Earning Assets:						
Loans [1]	$507,249	$11,816	4.66 %	$395,476	$10,162	5.14 %
Mortgage-backed securities	39,080	388	1.99 %	36,429	398	2.19 %
Investment securities	51,706	505	1.95 %	52,965	498	1.88 %
Restricted cash deposit	5,411	1	0.03 %	6,354	1	0.03 %
Equity securities [2]	3,105	60	3.85 %	1,870	42	4.48 %
Other investments and federal funds sold	56,106	169	0.60 %	115,007	247	0.43 %
Total interest-earning assets	662,657	12,939	3.91 %	608,101	11,348	3.73 %
Non-interest-earning assets	27,858			14,108		
Total assets	$690,515			$622,209		
Interest-Bearing Liabilities:						
Deposits						
Interest-bearing checking	$31,927	$27	0.17 %	$25,601	$21	0.16 %
Savings and clubs	94,418	126	0.27 %	97,415	130	0.27 %
Money market	155,124	389	0.50 %	137,328	332	0.48 %
Certificates of deposit	215,584	1,005	0.93 %	201,995	942	0.93 %
Mortgagors deposits	2,261	10	0.88 %	1,997	16	1.60 %
Total deposits	499,314	1,557	0.62 %	464,336	1,441	0.62 %
Borrowed money	70,966	594	1.67 %	43,611	543	2.48 %
Total interest-bearing liabilities	570,280	2,151	0.75 %	507,947	1,984	0.78 %
Non-interest-bearing liabilities						
Demand	51,466			53,473		
Other liabilities	14,083			7,672		
Total liabilities	635,829			569,092		
Non-controlling interest	—			(361)		
Stockholders' equity	54,686			53,478		
Total liabilities and equity	$690,515			$622,209		
Net interest income		$10,788			$9,364	
Average interest rate spread			3.16 %			2.95 %
Net interest margin			3.26 %			3.08 %

(1) Includes nonaccrual loans
(2) Includes FHLB-NY stock

Interest Income

Interest income increased $1.1 million, or 20.4%, to $6.7 million for the quarter, compared to $5.6 million for the prior year quarter, driven by a $133.6 million, or 34.0%, increase in the Bank's average loan balances. For the six months ended September 30, 2015, interest income increased $1.6 million, or 14.0%, to $12.9 million compared to $11.3 million for the prior year period, driven by a $111.8 million, or 28.3%, increase in the Bank's average loan balances.

36

Interest Expense

Interest expense increased $101 thousand, or 10.2%, to $1.1 million for the quarter, compared to $992 thousand for the prior year quarter. The increase is primarily due to a $62 thousand, or 8.6%, increase in interest expense on deposits as the Bank grew deposits. For the six months ended September 30, 2015, interest expense increased $167 thousand, or 8.4%, to $2.2 million, compared to $2.0 million for the prior year period as the Bank grew deposits.

Provision for Loan Losses and Asset Quality

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

The Bank's provision for loan loss methodology is consistent with the Interagency Policy Statement on the Allowance for Loan and Lease Losses (the "Interagency Policy Statement") released by the OCC on December 13, 2006. For additional information regarding the Bank's ALLL policy, refer to Note 2 of Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies" included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

The following table summarizes the activity in the ALLL for the six month periods ended September 30, 2015 and 2014 and the fiscal year-end March 31, 2015:

$ in thousands	Six Months Ended September 30, 2015	Fiscal Year Ended March 31, 2015	Six Months Ended September 30, 2014
Beginning Balance	$4,477	$7,233	$7,233
Less: Charge-offs	864	1,286	83
Add: Recoveries	198	1,540	941
Provision for (Recovery of) Loan Losses	761	(3,010)	(1,494)
Ending Balance	$4,572	$4,477	$6,597
Ratios:			
Net charge-offs (recoveries) to average loans outstanding	0.13%	(0.06)%	(0.22)%
Allowance to total loans	0.81%	0.93%	1.61%
Allowance to non-performing loans	70.51%	53.33%	81.59%

To reflect the robust growth in the Bank's loan portfolio, the Company recorded a $643 thousand provision for loan losses for the second quarter, compared to a $713 thousand recovery of loan losses for the prior year quarter. Net chargeoffs of $178 thousand were recognized for the second quarter, compared to net recoveries of $244 thousand for the prior year quarter. For the six months ended September 30, 2015, the Company recorded a $761 thousand provision for loan losses, compared to a $1.5 million recovery of loan losses for the prior year period, due primarily to the robust loan growth during the period. Net chargeoffs of $666 thousand were recognized for the six months ended September 30, 2015, compared to net recoveries of $858 thousand in the prior year period.

At September 30, 2015, nonaccrual loans totaled $6.5 million, or 0.9% of total assets compared to $8.4 million or 1.2% of total assets at March 31, 2015. The ALLL was $4.6 million at September 30, 2015, which represents a ratio of the ALLL to nonaccrual loans of 70.5% compared to $4.5 million at March 31, 2015 which represents a ratio of 53.3%. Reflecting a 22.8% drop in our non-performing loans during the six month period, the ratio of the allowance for loan losses to total loans was 0.8% at September 30, 2015, compared to 0.9% at March 31, 2015.

Non-performing Assets

Non-performing assets consist of nonaccrual loans, loans held-for-sale and property acquired in settlement of loans, including foreclosure. When a borrower fails to make a payment on a loan, the Bank and/or its loan servicers take prompt steps to have the delinquency cured and the loan restored to current status. This includes a series of actions such as phone calls, letters, customer visits and, if necessary, legal action. In the event the loan has a guarantee, the Bank may seek to recover on the guarantee, including, where applicable, from the SBA. Loans that remain delinquent are reviewed for reserve provisions and charge-off. The Bank's collection efforts continue after the loan is charged off, except when a determination is made that collection efforts have been exhausted or are not productive.

The Bank may from time to time agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). Loans modified in a TDR are placed on nonaccrual status until the Bank determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for a minimum of six months. At September 30, 2015, loans classified as TDR totaled $7.5 million, of which $6.5 million were classified as performing. At March 31, 2015, loans classified as TDR totaled $8.2 million, of which $4.6 million were classified as performing.

At September 30, 2015, non-performing assets totaled $12.8 million, or 1.7% of total assets compared to $15.3 million, or 2.3% of total assets at March 31, 2015.

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

Non Performing Assets

$ in thousands	September 30, 2015		June 30, 2015		March 31, 2015		December 31, 2014		September 30, 2014	
Loans accounted for on a nonaccrual basis [1]:										
Gross loans receivable:										
One-to-four family	$3,251		$3,654		$3,664		$3,089		$2,636	
Multifamily	1,241		1,247		1,053		1,053		1,054	
Commercial real estate	—		1,784		2,817		2,850		2,991	
Business	1,992		1,883		861		1,550		1,395	
Consumer	—		—		—		7		10	
Total nonaccrual loans	6,484		8,568		8,395		8,549		8,086	
Other non-performing assets [2]:										
Real estate owned	3,723		3,723		4,341		3,934		4,122	
Loans held-for-sale	2,586		2,576		2,576		2,606		2,606	
Total other non-performing assets	6,309		6,299		6,917		6,540		6,728	
Total non-performing assets [3]	$12,793		$14,867		$15,312		$15,089		$14,814	
Accruing loans contractually past maturity > 90 days [4]	—		—		—		6		4,972	
Non-performing loans to total loans	1.15	%	1.74	%	1.74	%	1.96	%	1.97	%
Non-performing assets to total assets	1.74	%	2.22	%	2.26	%	2.34	%	2.30	%
Allowance to total loans	0.81	%	0.83	%	0.93	%	1.35	%	1.61	%
Allowance to non-performing loans	70.51	%	47.93	%	53.33	%	68.78	%	81.59	%

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

the ability to collect on the loan.
(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 less cost to sell, or fair value.
(3) Troubled debt restructured loans performing in accordance with their modified terms for less than six months and those not performing in accordance with their modified terms are considered nonaccrual and are included in the nonaccrual category in the table above. At September 30, 2015, there were $6.5 million TDR loans that have performed in accordance with their modified terms for a period of at least six months. These loans are generally considered performing loans and are not presented in the table above.
(4) Loans 90 days or more past maturity and still accruing, which were not included in the non-performing category, are presented in the above table.

Subprime Loans

In the past, the Bank originated or purchased a limited amount of subprime loans (which are defined by the Bank as those loans where the borrowers have FICO scores of 660 or less). At September 30, 2015, the Bank had $9.3 million in subprime loans, or 1.7% of its total loan portfolio, of which $934 thousand are non-performing loans.

Non-Interest Income

Non-interest income decreased $431 thousand, or 27.6%, to $1.1 million for the three months ended September 30, 2015, compared to $1.6 million for the prior year quarter. For the six months ended September 30, 2015, non-interest income decreased $441 thousand, or 15.9%, to $2.3 million compared to $2.8 million for the prior year period. Non-interest income in the prior year included a $323 thousand grant from the Community Development Financial Institutions Fund of the U.S. Treasury Department. Lower depository fees were partially offset by gains on sale of loans and higher loan fees during the six months ended September 30, 2015.

Non-Interest Expense

Non-interest expense decreased $542 thousand, or 8.0%, to $6.2 million for the quarter, compared to $6.8 million for the prior year quarter. For the six months ended September 30, 2015, non-interest expense decreased $1.1 million, or 7.9% to $12.2 million, compared to $13.3 million for the prior year period. The decrease in both periods were primarily related to lower expenses associated with delinquent loans and loan workout, as well as a decrease in employee compensation and benefits.

Income Tax Expense

Income tax expense was $79 thousand for the three months ended September 30, 2015, compared to $57 thousand for the prior year quarter. For the six months ended September 30, 2015, income tax expense was $93 thousand, compared to $73 thousand in the prior year period.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable, as the Company is a smaller reporting company.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. As of September 30, 2015, 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 amended.

Based on the foregoing evaluation, and in light of the identified material weaknesses disclosed in our Annual Report on Form 10-K for the year ended March 31, 2015 filed June 29, 2015, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2015. The material weaknesses in internal control over financial reporting related to the risk assessment process and controls in the credit risk management function, and controls over the accounting and disclosure for the allowance for loan losses and related accounts.

(b) Remediation Plan

With the oversight of senior management and the finance and audit committee, we are currently developing and implementing improved process activities and controls, documented procedures and training related to the preparation and handling of the allowance for loan losses.

Implementation of the remediation plan has been completed through the efforts of the Chief Credit Officer working in conjunction with the Accounting and Finance Department. Additional controls and procedures have been designed in response to this matter and have been placed into operation.

Currently, the testing of the effectiveness of these implemented controls is underway. The effectiveness of new or revised processes and procedures cannot be evaluated until we have operated under such processes and procedures for at least one full fiscal reporting period. We expect to conduct a complete evaluation of the effectiveness of our remediation plan as of the fiscal year ending March 31, 2016.

(c) Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company and the Bank or one of its wholly owned subsidiaries are parties to various legal proceedings incident to their business. Certain claims, suits, complaints and investigations (collectively “proceedings”) involving the Company and the Bank or a subsidiary, arising in the ordinary course of business, have been filed or are pending. The Company is unable at this time to determine the ultimate outcome of each proceeding, but believes, after discussions with legal counsel representing the Company and the Bank or the subsidiary in these proceedings, that it has meritorious defenses to each proceeding and appropriate measures have been taken to defend the interests of the Company, Bank or subsidiary. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank. Further, there have been no material developments or changes associated with any litigation matters previously reported by the Company or the Bank. In accordance with ASC Topic 450, Carver has accrued $30,000 for these lawsuits.

Item 1A. Risk Factors

The Company does not believe its risks have materially changed from those included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

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

(a) No unregistered securities were sold by the Company during the quarter ended September 30, 2015.

(b) Not applicable.

(c) The Company did not repurchase any of its securities during the quarter ended September 30, 2015.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are submitted with this report:

3.1	Certificate of Incorporation of Carver Bancorp, Inc. (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 Mandatorily Convertible Non-Voting Participating Preferred Stock, Series C, and Convertible Non-Cumulative Non-Voting Participating Preferred Stock, Series D (4)
4.3	Form of Stockholder Rights Agreement, dated June 29, 2011, by and between the Company and certain purchasers (4)
4.4	Exchange Agreement, dated June 29, 2011, by and between the Company and the United States Department of the Treasury (4)
10.1	Employment Agreement by and between Michael T. Pugh and Carver Federal Savings Bank, dated January 1, 2015 (5)
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, 2015, formatted in XBRL (Extensive Business Reporting Language): (i) Consolidated Statements of Financial Condition as of September 30, 2015 (unaudited) and March 31, 2015; (ii) Consolidated Statements of Operations for the three and six months ended September 30, 2015 and 2014 (unaudited); (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended September 30, 2015 and 2014 (unaudited); (iv) Consolidated Statements of Changes in Equity for the six months ended September 30, 2015 (unaudited); (v) Consolidated Statements of Cash Flows for the six months ended September 30, 2015 and 2014 (unaudited); and (vi) Notes to Consolidated Financial Statements.

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

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

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

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

(5) Incorporated herein by reference to the Exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 22, 2015.

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 10, 2015	/s/ Michael T. Pugh Michael T. Pugh President and Chief Executive Officer (Principal Executive Officer)
Date: November 10, 2015	/s/ David L. Toner David L. Toner First Senior Vice President and Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)

43