

CARVER BANCORP INC

Form 10-Q

November 20, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 001-13007

CARVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

13-3904174

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

75 West 125th Street, New York, New York

10027

(Address of Principal Executive Offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class Outstanding at November 17, 2017

Common Stock, par value \$0.01 3,696,087

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION (UNAUDITED)</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Financial Condition as of September 30, 2017 and March 31, 2017</u>	<u>1</u>
<u>Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2017 and 2016</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended September 30, 2017 and 2016</u>	<u>3</u>
<u>Consolidated Statement of Changes in Equity for the Six Months Ended September 30, 2017 and 2016</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2017 and 2016</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
<u>Item 4. Controls and Procedures</u>	<u>44</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 1A. Risk Factors</u>	<u>46</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>46</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>46</u>
<u>Item 5. Other Information</u>	<u>46</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>SIGNATURES</u>	<u>48</u>
Exhibit 11	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
Exhibit 101	

PART I. FINANCIAL INFORMATION

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

	September 30, 2017	March 31, 2017
\$ in thousands except per share data		
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$67,392	\$58,428
Money market investments	258	258
Total cash and cash equivalents	67,650	58,686
Restricted cash	—	283
Investment securities:		
Available-for-sale, at fair value	56,486	59,011
Held-to-maturity, at amortized cost (fair value of \$12,892 and \$13,497 at September 30, 2017 and March 31, 2017, respectively)	12,752	13,435
Total investment securities	69,238	72,446
Loans held-for-sale (HFS)	—	944
Loans receivable:		
Real estate mortgage loans	437,164	471,444
Commercial business loans	72,991	65,114
Consumer loans	8,388	8,994
Loans, gross	518,543	545,552
Allowance for loan losses	(5,126)	(5,060)
Total loans receivable, net	513,417	540,492
Premises and equipment, net	5,665	5,427
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	1,768	2,171
Accrued interest receivable	2,190	1,583
Other assets	6,468	5,829
Total assets	\$666,396	\$687,861
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing checking	\$58,051	\$61,576
Interest-bearing deposits		
Savings	101,582	100,913
Interest-bearing checking	23,898	37,180
Money market	107,876	140,807
Certificates of deposit	275,837	236,342
Escrow	2,242	2,358
Total interest-bearing deposits	511,435	517,600
Total deposits	569,486	579,176
Advances from the FHLB-NY and other borrowed money	39,403	49,403
Other liabilities	10,833	11,884
Total liabilities	619,722	640,463

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)	61	61
Additional paid-in capital	55,476	55,474
Accumulated deficit	(52,132)	(50,898)
Treasury stock, at cost (1,944 shares)	(417)	(417)
Accumulated other comprehensive loss	(1,432)	(1,940)
Total equity	46,674	47,398
Total liabilities and equity	\$666,396	\$687,861
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,	
	2017	2016 Restated (1)	2017	2016 Restated (1)
\$ in thousands, except per share data				
Interest income:				
Loans	\$5,797	\$5,924	\$11,449	\$12,377
Mortgage-backed securities	245	146	495	316
Investment securities	156	195	314	423
Money market investments	141	61	252	130
Total interest income	6,339	6,326	12,510	13,246
Interest expense:				
Deposits	956	929	1,888	1,864
Advances and other borrowed money	296	294	582	621
Total interest expense	1,252	1,223	2,470	2,485
Net interest income	5,087	5,103	10,040	10,761
Provision for (recovery of) loan losses	4	(160)	124	(364)
Net interest income after provision for (recovery of) loan losses	5,083	5,263	9,916	11,125
Non-interest income:				
Depository fees and charges	851	803	1,746	1,605
Loan fees and service charges	144	85	242	205
Gain on sale of securities	—	58	—	58
(Loss) gain on sale of loans, net	—	(62)	—	4
(Loss) gain on sale of real estate owned, net of market value adjustment	(1)	10	66	10
Gain on sale of building, net	17	17	34	34
Other	128	346	260	481
Total non-interest income	1,139	1,257	2,348	2,397
Non-interest expense:				
Employee compensation and benefits	3,092	3,037	6,161	5,973
Net occupancy expense	872	797	1,699	1,541
Equipment, net	191	200	384	388
Data processing	425	371	818	699
Consulting fees	194	76	434	268
Federal deposit insurance premiums	150	163	297	329
Other	1,862	2,127	3,646	4,213
Total non-interest expense	6,786	6,771	13,439	13,411
(Loss) income before income taxes	(564)	(251)	(1,175)	111
Income tax expense	30	—	60	37
Net (loss) income	\$(594)	\$(251)	\$(1,235)	\$74

Edgar Filing: CARVER BANCORP INC - Form 10-Q

(Loss) earnings per common share:

Basic					\$ (0.16)	\$ (0.07)	\$ (0.33)	\$ 0.01
Diluted					(0.16)	(0.07)	(0.33)	0.01

⁽¹⁾ September 30, 2016 balances have been restated from previously reported results to correct for material and certain other errors from prior periods. Refer to Note 1 for further detail.

See accompanying notes to consolidated financial statements

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016	2017	2016
\$ in thousands	Restated (1)		Restated (1)	
Net (loss) income	\$(594)	\$(251)	\$(1,235)	\$ 74
Other comprehensive income (loss), net of tax:				
Change in unrealized loss of securities available-for-sale, net of income tax expense of \$0	132	(259)	508	100
Less: Reclassification adjustment for gains on sale of available-for-sale securities, net of income tax expense of \$0	—	58	—	58
Total other comprehensive income (loss), net of tax	132	(317)	508	42
Total comprehensive (loss) income, net of tax	\$(462)	\$(568)	\$(727)	\$ 116

⁽¹⁾ September 30, 2016 balances have been restated from previously reported results to correct for material and certain other errors from prior periods. Refer to Note 1 for further detail.

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, 2017 and 2016
(Unaudited)

\$ in thousands	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance — March 31, 2017	\$45,118	\$ 61	\$ 55,474	\$(50,898)	\$(417)	\$(1,940)	\$47,398
Net loss	—	—	—	(1,235)	—	—	(1,235)
Other comprehensive income, net of taxes	—	—	—	—	—	508	508
Stock based compensation expense	—	—	2	1	—	—	3
Balance — September 30, 2017	\$45,118	\$ 61	\$ 55,476	\$(52,132)	\$(417)	\$(1,432)	\$46,674
Balance — March 31, 2016 Restated ⁽¹⁾	\$45,118	\$ 61	\$ 55,470	\$(48,045)	\$(417)	\$(307)	\$51,880
Net income — Restated ⁽¹⁾	—	—	—	74	—	—	74
Other comprehensive income, net of taxes	—	—	—	—	—	42	42
Balance — September 30, 2016 Restated ⁽¹⁾	\$45,118	\$ 61	\$ 55,470	\$(47,971)	\$(417)	\$(265)	\$51,996

⁽¹⁾ September 30, 2016 balances have been restated from previously reported results to correct for material and certain other errors from prior periods. Refer to Note 1 for further detail.

See accompanying notes to consolidated financial statements

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

	Six Months Ended September 30,	
\$ in thousands	2017	2016 Restated (1)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income ⁽¹⁾	\$(1,235)	\$74
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Provision for (recovery of) loan losses	124	(364)
Stock based compensation expense	3	—
Depreciation and amortization expense	398	431
Gain on sale of real estate owned, net of market value adjustment	(66)	(10)
Gain on sale of securities, net	—	(58)
Gain on sale of loans, net	—	(4)
Gain on sale of building	(34)	(34)
Amortization and accretion of loan premiums and discounts and deferred charges	199	88
Amortization and accretion of premiums and discounts — securities	175	150
(Increase) decrease in accrued interest receivable ⁽¹⁾	(607)	208
(Increase) decrease in other assets ⁽¹⁾	(991)	(419)
(Decrease) in other liabilities ⁽¹⁾	(1,051)	(2,276)
Net cash used in operating activities	(3,085)	(2,214)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments: Available-for-sale	—	(10,606)
Proceeds sales of investments: Available-for-sale	—	7,259
Proceeds from principal payments, maturities and calls of investments: Available-for-sale	2,888	15,730
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	653	817
Originations of loans held-for-investment, net of repayments	27,696	36,159
Proceeds from sale of loans held-for-sale	—	4,645
Proceeds on sale of loans	—	5,401
Decrease (increase) in restricted cash	283	(29)
Redemption of FHLB-NY stock, net	403	937
Purchase of premises and equipment	(636)	(33)
Proceeds from sales of real estate owned	452	160
Net cash provided by investing activities	31,739	60,440
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	(9,690)	(23,142)
Net decrease in FHLB-NY advances and other borrowings	(10,000)	(25,000)
Net cash used in financing activities	(19,690)	(48,142)
Net decrease in cash and cash equivalents	8,964	10,084
Cash and cash equivalents at beginning of period	58,686	63,188
Cash and cash equivalents at end of period	\$67,650	\$73,272
Supplemental cash flow information:		
Noncash financing and investing activities		
Securities purchased but not yet paid for	\$—	\$10,079

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Transfers (from) to held-for-sale loans (to) from portfolio loans	\$(944)	\$3,410
Transfers to real estate owned	\$—	\$462

Cash paid for:

Interest	\$2,139	\$4,692
Income taxes	\$175	\$57

⁽¹⁾ September 30, 2016 balances have been restated from previously reported results to correct for material and certain other errors from prior periods. Refer to Note 1 for further detail.

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 real estate investment trust, Carver Asset Corporation (“CAC”), that was 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.

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 nine branches located throughout the City of New York that primarily serve the communities in which they operate.

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. On September 17, 2003, Carver Statutory Trust I issued 13,000 shares, liquidation amount \$1,000 per share, of floating rate capital securities. Gross proceeds from the sale of these trust preferred debt securities of \$13 million, and proceeds from the sale of the trust's common securities of \$0.4 million, were used to purchase approximately \$13.4 million aggregate principal amount of the Company's floating rate junior subordinated debt securities due 2033. The trust preferred debt securities are redeemable at par quarterly at the option of the Company beginning on or after September 17, 2008, and have a mandatory redemption date of September 17, 2033. Cash distributions on the trust preferred debt securities are cumulative and payable at a floating rate per annum resetting quarterly with a margin of 3.05% over the three-month LIBOR. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through September 2016. Such payments were made in September 2016. Interest on the debentures has been deferred beginning with the December 2016 payment, per the terms of the agreement, which permit such deferral for up to twenty consecutive quarters, as the Company is prohibited from making payments without prior regulatory approval.

Carver relies primarily on dividends from Carver Federal to pay cash dividends to its stockholders, to engage in share repurchase programs and to pay principal and interest on its trust preferred debt obligation. The OCC regulates all capital distributions, including dividend payments, by Carver Federal to Carver, and the FRB regulates dividends paid by Carver. As the subsidiary of a savings and loan association holding company, Carver Federal must file a notice or an application (depending on the proposed dividend amount) with the OCC (and a notice with the FRB) prior to the declaration of each capital distribution. The OCC will disallow any proposed dividend, for among other reasons, that would result in Carver Federal’s failure to meet the OCC minimum capital requirements. In accordance with the Agreement, Carver Federal is currently prohibited from paying any dividends without prior OCC approval, and, as such, has suspended Carver’s regular quarterly cash dividend on its common stock. There are no assurances that dividend payments to Carver will resume.

Regulation

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 May 24, 2016, the Bank entered into a Formal Agreement with the OCC to undertake certain compliance-related and other actions as further described in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on May 27, 2016. As a result of the Formal Agreement ("the Agreement"), the Bank must obtain the approval of the OCC prior to effecting any change in its directors or senior executive officers. The Bank may not declare or pay dividends

or make any other capital distributions, including to the Company, without first filing an application with the OCC and receiving the prior approval of the OCC. Furthermore, the Bank must seek the OCC's written approval and the FDIC's written concurrence before entering into any "golden parachute payments" as that term is defined under 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359.

Restatement

On July 7, 2017, the Finance and Audit Committee of the Board of Directors of Carver Bancorp, Inc., after consultation with BDO USA, LLP, our independent registered public accounting firm, determined that our consolidated financial statements as of and for the fiscal year ended March 31, 2016, and each of the quarters during the 2016 and 2017 fiscal years should no longer be relied upon.

The Company's audited results as of and for the year ended March 31, 2016, as well as the unaudited condensed consolidated financial information for the quarterly periods in 2017 and 2016 were restated in the Annual Report on Form 10-K for the year ended March 31, 2017 (the "Restatement"). The Restatement corrected material errors related to reconciling items that were identified as uncollectable that should have been written off in prior periods, as well as adjustments related to loan system maintenance items and payment applications that were not timely processed by the Bank on to its core provider system. In addition to these errors, adjustments were made related to other individually immaterial errors including certain corrections that had been previously identified but not recorded because they were not material to our consolidated financial statements. These corrections included adjustments to other liabilities, interest expense and certain reclassification entries. The cumulative impact of the Restatement and error corrections on the quarter ended September 30, 2016 was increases in interest income of \$42 thousand and other non-interest expense of \$198 thousand, and decreases in interest expense of \$178 thousand and non-interest income of \$21 thousand. For the six months ended September 30, 2016, the impact of the restatement was increases in interest income of \$56 thousand and other non-interest expense of \$251 thousand, and decreases in interest expense of \$157 thousand and non-interest income of \$44 thousand. Basic and diluted earnings per share for both periods were unchanged. All applicable amounts relating to this Restatement have been reflected in the consolidated financial statements and disclosed in the notes to the consolidated financial statements in this Form 10-Q.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and six month periods ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ended March 31, 2018. The consolidated balance sheet at September 30, 2017 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, 2017. Amounts subject to significant estimates and assumptions are items such as the allowance for

loan losses, realization of deferred tax assets, assessment of other-than-temporary impairment of securities, 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.

Certain comparative amounts for the prior period have been reclassified to conform to current period presentations. Such reclassifications had no effect on net income or shareholders' equity.

NOTE 3. EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016 Restated (1)	2017	2016 Restated (1)
\$ in thousands except per share data				
Net (loss) income (1)	\$(594)	\$ (251)	(1,235)	74
Less: Participated securities share of undistributed earnings (1)	—	—	—	45
Net (loss) income available to common shareholders (1)	\$(594)	\$ (251)	\$(1,235)	\$ 29
Weighted average common shares outstanding - basic	3,696,420	3,696,420	3,696,420	3,696,420
Effect of dilutive Management Recognition Plan ("MRP") shares	—	—	—	4,000
Weighted average common shares outstanding – diluted	3,696,420	3,696,420	3,696,420	3,700,420
Basic (loss) earnings per common share (1)	\$(0.16)	\$ (0.07)	\$(0.33)	\$ 0.01
Diluted (loss) earnings per common share (1)	\$(0.16)	\$ (0.07)	\$(0.33)	\$ 0.01

(1) September 30, 2016 balances have been restated from previously reported results to correct for material and certain other errors from prior periods. Refer to Note 1 for further detail.

NOTE 4. COMMON STOCK DIVIDENDS

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 income (loss), net of tax for the six months ended September 30, 2017 and 2016:

\$ in thousands	At March 31, 2017	Other Comprehensive Income, net of tax	At September 30, 2017
Net unrealized loss on securities available-for-sale	\$(1,940)	\$ 508	\$(1,432)

\$ in thousands	At March 31, 2016	Other Comprehensive Income, net of tax	At September 30, 2016
Net unrealized loss on securities available-for-sale	\$(307)	\$ 42	\$(265)

Edgar Filing: CARVER BANCORP INC - Form 10-Q

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

	For the Three Months Ended September 30, 2017	For the Six Months Ended September 30, 2017	Affected Line Item in the Consolidated Statement of Operations
\$ in thousands			
Reclassification adjustment for gain on sale of available-for-sale securities, net of tax	\$ —	\$ 58	Gain on sale of securities

NOTE 6. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. GAAP requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At September 30, 2017, \$56.5 million, or 81.6%, of the Bank's total securities were classified as available-for-sale, and the remaining \$12.8 million, or 18.4%, were classified as held-to-maturity. The Bank had no securities classified as trading at September 30, 2017 and March 31, 2017.

The following tables set forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at September 30, 2017 and March 31, 2017:

	At September 30, 2017			
	Amortized Cost	Gross Unrealized		Estimated Fair-Value
\$ in thousands		Gains	Losses	
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	\$2,272	\$—	\$47	\$ 2,225
Federal Home Loan Mortgage Corporation	7,285	—	130	7,155
Federal National Mortgage Association	25,923	—	658	25,265
Other	45	—	—	45
Total mortgage-backed securities	35,525	—	835	34,690
U.S. Government Agency Securities	6,955	—	85	6,870
Corporate Bonds	5,092	—	79	5,013
Other investments ⁽¹⁾	10,346	—	433	9,913
Total available-for-sale	\$57,918	\$—	\$1,432	\$ 56,486
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	\$1,649	\$85	\$—	\$ 1,734
Federal National Mortgage Association and Other	10,103	42	22	10,123
Total held-to-maturity mortgage-backed securities	11,752	127	22	11,857
Corporate Bonds	1,000	35	—	1,035
Total held-to maturity	\$12,752	\$162	\$22	\$ 12,892

Edgar Filing: CARVER BANCORP INC - Form 10-Q

	At March 31, 2017			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	
\$ in thousands				
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	\$2,576	\$—	\$89	\$ 2,487
Federal Home Loan Mortgage Corporation	8,053	—	195	7,858
Federal National Mortgage Association	27,241	—	928	26,313
Other	45	—	—	45
Total mortgage-backed securities	37,915	—	1,212	36,703
U.S. Government Agency Securities	7,574	—	92	7,482
Corporate Bonds	5,104	—	140	4,964
Other investments ⁽¹⁾	10,358	—	496	9,862
Total available-for-sale	\$60,951	\$—	\$ 1,940	\$ 59,011
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	\$1,797	\$86	\$—	\$ 1,883
Federal National Mortgage Association and Other	10,638	12	60	10,590
Total held-to-maturity mortgage-backed securities	12,435	98	60	12,473
Corporate Bonds	1,000	24	—	1,024
Total held-to-maturity	\$13,435	\$122	\$60	\$ 13,497

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

⁽¹⁾ Primarily comprised of an investment in a CRA fund with 95% of its underlying investments consisting of government and agency-backed securities.

The following is a summary regarding proceeds, gross gains and gross losses realized from the sale of securities from the available-for-sale portfolio for the three and six months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30, 2017	For the Six Months Ended September 30, 2016
\$ in thousands		
Proceeds	\$—7,259	\$—7,259
Gross Gains	—58	—58
Gross Losses	—	—

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at September 30, 2017 and March 31, 2017 for less than 12 months and 12 months or longer:

	At September 30, 2017			
	Less than 12 months	12 months or longer	Total	
\$ in thousands	Unrealized Losses	Unrealized Losses	Unrealized Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities	\$69	\$7,458	\$766	\$27,186
			\$835	\$34,644

Edgar Filing: CARVER BANCORP INC - Form 10-Q

U.S. Government Agency Securities	51	3,825	34	3,045	85	6,870
Corporate Bonds	—	—	79	5,013	79	5,013
Other investments ⁽¹⁾	—	—	433	9,567	433	9,567
Total available-for-sale securities	\$120	\$11,283	\$1,312	\$44,811	\$1,432	\$56,094

Held-to-Maturity:

Mortgage-backed securities	\$3	\$2,323	\$19	\$1,820	\$22	\$4,143
Total held-to-maturity securities	\$3	\$2,323	\$19	\$1,820	\$22	\$4,143

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	At March 31, 2017					
	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	\$1,171	\$34,716	\$41	\$1,942	\$1,212	\$36,658
U.S. Government Agency Securities	92	7,482	—	—	92	7,482
Corporate bonds	140	4,964	—	—	140	4,964
Other investments ⁽¹⁾	—	—	496	9,504	496	9,504
Total available-for-sale securities	\$1,403	\$47,162	\$537	\$11,446	\$1,940	\$58,608

Held-to-Maturity:

Mortgage-backed securities	\$60	\$7,623	\$—	\$—	\$60	\$7,623
Total held-to-maturity securities	\$60	\$7,623	\$—	\$—	\$60	\$7,623

⁽¹⁾ Primarily comprised of an investment in a CRA fund with 95% of its underlying investments consisting of government and agency-backed securities.

A total of 31 securities had an unrealized loss at September 30, 2017 compared to 33 at March 31, 2017. Mortgage-backed securities represented 61.8% of total available-for-sale securities in an unrealized loss position at September 30, 2017. There were 16 mortgage-backed securities, five corporate bonds and one investment in a CRA fund that had an unrealized loss position for more than 12 months at September 30, 2017. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, and the corporate securities which are all reputable institutions in good financial standing, 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 until 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 is accounted for as follows: (1) the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and (2) 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, 2017, 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, 2017, 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	\$ 5,054	\$5,000	1.66	%
Five through ten years	13,579	13,316	2.03	%
After ten years	39,284	38,170	1.49	%
Total	\$ 57,917	\$56,486	1.63	%

Held-to-maturity:

Five through ten years	\$ 9,263	\$9,364	2.83	%
------------------------	----------	---------	------	---

After ten years	3,489	3,528	2.55	%
Total	\$ 12,752	\$ 12,892	2.75	%

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 at September 30, 2017 and March 31, 2017:

\$ in thousands	September 30, 2017		March 31, 2017	
	Amount	Percent	Amount	Percent
Gross loans receivable:				
One-to-four family	\$ 128,265	24.9 %	\$ 132,679	24.5 %
Multifamily	81,016	15.8 %	87,824	16.2 %
Commercial real estate	223,980	43.5 %	241,794	44.7 %
Construction	—	— %	4,983	0.9 %
Business ⁽¹⁾	73,025	14.2 %	65,151	12.0 %
Consumer ⁽²⁾	8,309	1.6 %	8,994	1.7 %
Total loans receivable	\$ 514,595	100.0 %	\$ 541,425	100.0 %
Unamortized premiums, deferred costs and fees, net	3,948		4,127	
Allowance for loan losses	(5,126)		(5,060)	
Total loans receivable, net	\$ 513,417		\$ 540,492	
Loans HFS	\$—		\$944	

⁽¹⁾ Includes business overdrafts

⁽²⁾ Includes personal loans and consumer overdrafts

Edgar Filing: CARVER BANCORP INC - Form 10-Q

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, 2017 and 2016, and the fiscal year ended March 31, 2017.

Three months ended September 30, 2017

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 1,518	\$ 1,227	\$ 1,647	—	\$ 724	\$ 17	—	\$5,133
Charge-offs	12	6	—	—	—	8	—	26
Recoveries	—	—	5	—	10	—	—	15
Provision for (recovery of) Loan Losses	(327)	148	40	—	98	11	34	4
Ending Balance	\$ 1,179	\$ 1,369	\$ 1,692	\$ —	\$ 832	\$ 20	\$ 34	\$5,126

Six months ended September 30, 2017

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 1,663	\$ 1,213	\$ 1,496	\$ 106	\$ 573	\$ 9	\$ —	\$5,060
Charge-offs	93	6	—	—	20	22	—	141
Recoveries	—	—	10	—	69	4	—	83
Provision for (recovery of) Loan Losses	(391)	162	186	(106)	210	29	34	124
Ending Balance	\$ 1,179	\$ 1,369	\$ 1,692	\$ —	\$ 832	\$ 20	\$ 34	\$5,126

Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	1,031	1,308	1,692	—	764	20	34	4,849
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	148	61	—	—	68	—	—	277

Loan Receivables Ending Balance:	\$ 130,480	\$ 81,765	\$ 224,919	\$ —	\$ 72,991	\$ 8,388	\$ —	\$518,543
Ending Balance: collectively evaluated for impairment	123,381	80,183	223,537	—	68,506	8,388	—	503,995
Ending Balance: individually evaluated for impairment	7,099	1,582	1,382	—	4,485	—	—	14,548

Fiscal year ended March 31, 2017

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	\$ 1,697	\$ 622	\$ 1,808	\$ 62	\$ 1,022	\$ 21	\$5,232
Charge-offs	106	338	—	—	—	85	529
Recoveries	—	—	20	—	304	4	328
Provision for (recovery of) Loan Losses	72	929	(332)	44	(753)	69	29
Ending Balance	\$ 1,663	\$ 1,213	\$ 1,496	\$ 106	\$ 573	\$ 9	\$5,060

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	1,357	1,207	1,490	106	532	7	4,699
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	306	6	6	—	41	2	361
Loan Receivables Ending Balance:	\$ 134,927	\$ 88,750	\$ 242,818	\$ 4,949	\$ 65,114	\$ 8,994	\$ 545,552
Ending Balance: collectively evaluated for impairment	129,420	87,148	239,323	4,949	61,027	8,992	530,859
Ending Balance: individually evaluated for impairment	5,507	1,602	3,495	—	4,087	2	14,693

13

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Three months ended September 30, 2016

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 1,875	\$ 530	\$ 1,858	\$ 62	\$ 856	\$ 2	\$ —	\$ 5,183
Charge-offs	59	244	—	—	—	41	—	344
Recoveries	—	—	5	—	63	—	—	68
Provision for (recovery of) Loan Losses (restated)	(162)	386	(120)	(12)	(342)	41	49	(160)
Ending Balance	\$ 1,654	\$ 672	\$ 1,743	\$ 50	\$ 577	\$ 2	\$ 49	\$ 4,747

Six months ended September 30, 2016

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 1,697	\$ 622	\$ 1,808	\$ 62	\$ 1,022	\$ 21	\$ —	\$ 5,232
Charge-offs	62	251	—	—	—	41	—	354
Recoveries	—	—	10	—	219	4	—	233
Provision for (recovery of) Loan Losses	19	301	(75)	(12)	(664)	18	49	(364)
Ending Balance	\$ 1,654	\$ 672	\$ 1,743	\$ 50	\$ 577	\$ 2	\$ 49	\$ 4,747

Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	1,423	672	1,722	50	370	2	49	4,288
---	-------	-----	-------	----	-----	---	----	-------

Allowance for Loan Losses Ending Balance: individually evaluated for impairment	231	—	20	—	208	—	—	459
---	-----	---	----	---	-----	---	---	-----

Loan Receivables Ending Balance:	\$ 130,673	\$ 74,751	\$ 251,988	\$ 4,975	\$ 66,118	\$ 250	—	\$ 528,755
----------------------------------	------------	-----------	------------	----------	-----------	--------	---	------------

Ending Balance: collectively evaluated for impairment	125,352	73,141	249,145	4,975	59,762	250	—	512,625
---	---------	--------	---------	-------	--------	-----	---	---------

Ending Balance: individually evaluated for impairment	5,321	1,610	2,843	—	6,356	—	—	16,130
---	-------	-------	-------	---	-------	---	---	--------

The following is a summary of nonaccrual loans at September 30, 2017 and March 31, 2017.

\$ in thousands	September 30, 2017	March 31, 2017
Gross loans receivable:		
One-to-four family	\$ 5,583	\$ 4,703
Multifamily	1,582	1,589
Commercial real estate	1,382	1,389
Business	303	1,026
Consumer	—	—
Total nonaccrual loans	\$ 8,850	\$ 8,707

Nonaccrual loans generally consist of loans for which the accrual of interest has been discontinued as a result of such loans becoming 90 days or more delinquent as to principal and/or interest payments. Interest income on nonaccrual loans is recorded when received based upon the collectability of the loan. Troubled debt restructured ("TDR") loans consist of modified loans where borrowers have been granted concessions in regards to the terms of their loans due to financial or other difficulties, which rendered them unable to repay their loans under the original contractual terms. Total TDR loans at September 30, 2017 were \$5.9 million, \$2.0 million of which were non-performing as they were either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months. At March 31, 2017, total TDR loans were \$6.4 million, of which \$2.5 million were non-performing.

At September 30, 2017, other non-performing assets totaled \$604 thousand which consisted of other real estate owned. At September 30, 2017, other real estate owned valued at \$604 thousand comprised of six foreclosed properties which includes \$314 thousand of residential properties, compared to \$787 thousand comprised of eight properties, which included \$718 thousand

of residential properties at March 31, 2017. At September 30, 2017, the Bank had no non performing held-for-sale loans, compared to \$944 thousand at March 31, 2017.

Although we believe that substantially all risk elements at September 30, 2017 have been disclosed, it is possible that for a variety of reasons, including economic conditions, certain borrowers may be unable to comply with the contractual repayment terms on certain real estate and commercial loans.

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, 2017, and based on the most recent analysis performed in the current quarter, 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	\$ 80,183	\$ 222,783	\$ —	\$ 68,147
Special Mention	—	754	—	390
Substandard	1,582	1,382	—	4,454
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$ 81,765	\$ 224,919	\$ —	\$ 72,991
Credit Risk Profile Based on Payment Activity:				
Performing			\$ 125,057	\$ 8,388
Non-Performing			5,423	—
Total			\$ 130,480	\$ 8,388

Edgar Filing: CARVER BANCORP INC - Form 10-Q

As of March 31, 2017, and based on the most recent analysis performed, the risk category by class of loans is as follows:

\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	\$ 87,148	\$ 238,552	\$ 4,949	\$ 58,555
Special Mention	—	771	—	133
Substandard	1,082	3,495	—	6,426
Doubtful	520	—	—	—
Loss	—	—	—	—
Total	\$ 88,750	\$ 242,818	\$ 4,949	\$ 65,114
			One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:				
Performing			\$ 131,028	\$ 8,992
Non-Performing			3,899	2
Total			\$ 134,927	\$ 8,994

The following table presents an aging analysis of the recorded investment of past due financing receivable as of September 30, 2017 and March 31, 2017.

September 30, 2017

\$ 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	\$ —	\$ 268	\$ 5,423	\$ 5,691	\$ 124,789	\$ 130,480
Multifamily	—	—	797	797	80,968	81,765
Commercial real estate	—	—	868	868	224,051	224,919
Business	—	43	289	332	72,659	72,991
Consumer	5	4	—	9	8,379	8,388
Total	\$ 5	\$ 315	\$ 7,377	\$ 7,697	\$ 510,846	\$ 518,543

March 31, 2017

\$ 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	\$ 2,094	\$ 247	\$ 3,022	\$ 5,363	\$ 129,564	\$ 134,927
Multifamily	—	—	803	803	87,947	88,750
Commercial real estate	—	—	—	—	242,818	242,818
Construction	—	—	—	—	4,949	4,949
Business	—	429	1,500	1,929	63,185	65,114
Consumer	1	—	2	3	8,991	8,994
Total	\$ 2,095	\$ 676	\$ 5,327	\$ 8,098	\$ 537,454	\$ 545,552

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table presents information on impaired loans with the associated allowance amount, if applicable, at September 30, 2017 and March 31, 2017.

\$ in thousands	At September 30, 2017			At March 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:						
One-to-four family	\$6,020	\$7,509	\$ —	\$3,416	\$4,210	\$ —
Multifamily	1,524	2,009	—	1,596	2,081	—
Commercial real estate	1,382	1,382	—	993	993	—
Business	1,928	2,001	—	1,923	1,968	—
With an allowance recorded:						
One-to-four family	1,079	1,079	148	2,091	2,215	306
Multifamily	58	58	61	6	6	6
Commercial real estate	—	—	—	2,502	2,502	6
Business	2,557	2,578	68	2,164	2,164	41
Consumer and other	—	—	—	2	2	2
Total	\$14,548	\$16,616	\$ 277	\$14,693	\$16,141	\$ 361

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 periods ended September 30, 2017 and 2016.

\$ in thousands	For the Three Months Ended September 30,				For the Six Months Ended September 30,			
	2017		2016		2017		2016	
	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	\$5,428	\$ 6	\$3,183	\$ —	\$5,313	\$ 12	\$3,081	\$ 7
Multifamily	1,528	6	1,703	4	1,533	15	1,729	6
Commercial real estate	1,923	—	1,971	—	2,469	19	1,978	—
Business	2,037	—	3,577	4	2,262	—	3,477	128
With an allowance recorded:								
One-to-four family	1,081	—	1,712	—	1,085	—	1,717	1
Commercial real estate	—	—	882	—	—	—	883	—
Business	2,577	—	3,105	1	2,593	—	3,089	37
Consumer and other	—	—	—	—	—	—	—	—
Total	\$14,632	\$ 12	\$16,133	\$ 9	\$15,313	\$ 46	\$15,954	\$ 179

In certain circumstances, the Bank will modify a loan as part of a TDR under GAAP. 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. There was one loan modification made during the three and six month periods ended September 30, 2017. The modification converted a line of credit into a five year term loan with an interest concession. There were no TDR modifications made during the three and six month periods ended September 30, 2016.

The following table presents an analysis of those loan modifications that were classified as TDRs during the three and six month periods ended September 30, 2017.

\$ in thousands	Modifications to loans during the three month period ended September 30, 2017						Modifications to loans during the six month period ended September 30, 2017					
	Number of recorded loans investment	Pre-modification outstanding Recorded investment	Post-Modification rate	Pre-Modification rate	Post-Modification rate	Pre-Modification rate	Number of recorded loans investment	Pre-modification outstanding Recorded investment	Post-Modification rate	Pre-Modification rate	Post-Modification rate	
Business	1	\$ 285	\$ 285	7.25 %	7.00 %		1	\$ 285	\$ 285	7.25 %	7.00 %	

In an effort to proactively resolve delinquent loans, the Bank has selectively extended to certain borrowers concessions such as extensions, rate reductions or forbearance agreements. For the periods ended September 30, 2017 and 2016, there were no modified loans that defaulted within the last 12 months of modification.

At September 30, 2017, there were 11 loans in the TDR portfolio totaling \$3.8 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, 2017, there were 11 loans in the performing TDR portfolio totaling \$3.5 million.

Transactions With Certain Related Persons

Federal law requires that all loans or extensions of credit to executive officers and directors must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public and must not involve more than the normal risk of repayment or present other unfavorable features. Loans to our current directors, principal officers, nominees for election as directors, security holders known by us to own more than 5% of the outstanding shares of common stock, or associates of such persons (together, "related persons"), are made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to Carver Federal, and do not involve more than the normal risk of collectibility or present other unfavorable features.

The aggregate amount of loans outstanding to related parties was \$4.8 million at September 30, 2017 and \$4.7 million at March 31, 2017. During the six months ended September 30, 2017, advances totaled \$111 thousand and principal repayments totaled \$66 thousand. These loans were made in the ordinary course of business, on substantially the same terms, including collateral, as those prevailing at the time for comparable loans with persons not related to Carver Federal, and do not involve more than the normal risk of collectibility or present other unfavorable features.

Furthermore, loans above the greater of \$25,000, or 5% of Carver Federal's capital and surplus (up to \$500,000), to Carver Federal's directors and executive officers must be approved in advance by a majority of the disinterested members of Carver Federal's Board of Directors.

NOTE 8. FAIR VALUE MEASUREMENTS

Per GAAP, 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, GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

-

Edgar Filing: CARVER BANCORP INC - Form 10-Q

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.

18

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, 2017 and March 31, 2017, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

\$ in thousands	Fair Value Measurements at September 30, 2017, Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mortgage servicing rights	\$—	\$—	171	\$171
Investment securities Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—2,225	—	—	2,225
Federal Home Loan Mortgage Corporation	—7,155	—	—	7,155
Federal National Mortgage Association	—25,265	—	—	25,265
Other	—	—	45	45
U.S. Government Agency Securities	—6,870	—	—	6,870
Corporate bonds	—5,013	—	—	5,013
Other investments	—9,567	—	346	9,913
Total available-for-sale securities	—56,095	—	391	56,486
Total	\$— 56,095	\$—	\$ 562	\$56,657

\$ in thousands	Fair Value Measurements at March 31, 2017, Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mortgage servicing rights	\$—	\$—	\$ 192	\$192
Investment securities Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—2,487	—	—	2,487

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Federal Home Loan Mortgage Corporation	—7,858	—	7,858
Federal National Mortgage Association	—26,313	—	26,313
Other	—	45	45
U.S. Government Agency securities	—7,482	—	7,482
Corporate bonds	—4,964	—	4,964
Other investments	—9,504	358	9,862
Total available-for-sale securities	—58,608	403	59,011
Total	\$—58,608	\$ 595	\$59,203

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights (“MSR”) and other available-for-sale securities. Level 3 assets accounted for 0.1% of the Company’s total assets measured at fair value at September 30, 2017 and March 31, 2017.

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.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

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 periods ended September 30, 2017, there were no 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, 2017 and 2016:

\$ in thousands	Beginning balance, April 1, 2017	Total Realized/Unrealized Gains/(Losses) Recorded in Income	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, September 30, 2017	Unrealized Gains and (Losses) Related to Instruments Held at September 30, 2017
Available-for-Sale						
Other mortgage-backed securities	\$ 45	\$ —	\$ —	\$ —	\$ 45	\$ —
Other investments	358	(12)	—	—	346	—
Mortgage servicing rights	192	(21)	—	—	171	(20)
\$ in thousands	Beginning balance, April 1, 2016	Total Realized/Unrealized Gains/(Losses) Recorded in Income	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, September 30, 2016	Unrealized Gains and (Losses) Related to Instruments

							Held at September 30, 2016
Available-for-Sale							
Other mortgage-backed securities	\$ 45	\$	—	\$	—	\$ 45	\$ —
Other investments	148	—		212	—	360	—
Mortgage servicing rights	201	(5)	—	—	196	(5)

20

Edgar Filing: CARVER BANCORP INC - Form 10-Q

For Level 3 assets measured at fair value on a recurring basis as of September 30, 2017 and 2016, the significant unobservable inputs used in the fair value measurements were as follows:

\$ in thousands	Fair Value at September 30, 2017	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Available-for-Sale:				
Other mortgage-backed securities	\$ 45	Cost	n/a	
Other investments	346	Cost	n/a	
Mortgage Servicing Rights	171	Discounted Cash Flow	Weighted Average Constant Prepayment Rate ⁽¹⁾	23.70 %
\$ in thousands	Fair Value at March 31, 2017	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Available-for-Sale:				
Other mortgage-backed securities	\$ 45	Cost	n/a	
Other investments	358	Cost	n/a	
Mortgage Servicing Rights	192	Discounted Cash Flow	Weighted Average Constant Prepayment Rate ⁽¹⁾	22.22 %

⁽¹⁾ Represents annualized loan repayment rate assumptions

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, 2017 and March 31, 2017, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

\$ in thousands	Fair Value Measurements at September 30, 2017, Using Quoted Prices in Significant Active Markets for Identical Assets			Total Fair Value
	(Level 1)	(Level 2)	(Level 3)	
Impaired loans	\$ —	\$ 3,417	\$ 3,417	\$ 3,417
Other real estate owned	—	604	604	\$ 604

Fair Value Measurements at March 31, 2017, Using

	Quoted Prices in Significant Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
\$ in thousands				
Impaired loans	\$—	\$—	—\$ 5,953	\$5,953
Other real estate owned	—	—	990	\$990

For Level 3 assets measured at fair value on a non-recurring basis as of September 30, 2017 and March 31, 2017, the significant unobservable inputs used in the fair value measurements were as follows:

\$ in thousands	Fair Value at September 30, 2017	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Impaired loans	\$ 3,417	Appraisal of collateral	Appraisal adjustments	7.5% cost to sell
Other real estate owned	604	Appraisal of collateral	Appraisal adjustments	7.5% cost to sell

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	Fair Value at March 31, 2017	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Impaired loans	\$ 5,953	Appraisal of collateral	Appraisal adjustments	7.5% cost to sell
Other real estate owned	990	Appraisal of collateral	Appraisal adjustments	7.5% cost to sell

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, 2017 and March 31, 2017 are as follows:

\$ in thousands	September 30, 2017				
	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	\$67,650	\$67,650	\$67,650	\$ —	\$ —
Securities available-for-sale	56,486	56,486	—	56,095	391
FHLB Stock	1,768	1,768	—	1,768	—
Securities held-to-maturity	12,752	12,892	—	12,892	—
Loans receivable	513,417	515,689	—	—	515,689
Accrued interest receivable	2,190	2,190	—	2,190	—
Mortgage servicing rights	171	171	—	—	171
Other assets - Interest-bearing deposits	986	986	—	986	—
Financial Liabilities:					

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Deposits	\$ 569,486	\$ 568,487	\$ 293,657	\$ 274,830	\$	—
Advances from FHLB of New York	25,000	24,989	—	24,989	—	
Repos	1,000	999	—	999	—	
Other borrowed money	13,403	14,837	—	14,837	—	
Accrued interest payable	721	721	—	721	—	

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	March 31, 2017		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Carrying Amount	Estimated Fair Value				
Financial Assets:						
Cash and cash equivalents	\$58,686	\$58,686	\$58,686	\$ —	\$	—
Restricted cash	283	283	—	283	—	—
Securities available-for-sale	59,011	59,011	—	58,608	403	—
FHLB Stock	2,171	2,171	—	2,171	—	—
Securities held-to-maturity	13,435	13,497	—	13,497	—	—
Loans receivable	540,492	543,929	—	—	485,458	543,929
Loans held-for-sale	944	944	—	—	944	—
Accrued interest receivable	1,583	1,583	—	1,583	—	—
Mortgage servicing rights	192	192	—	—	192	—
Other assets - Interest-bearing deposits	985	985	—	985	—	—
Financial Liabilities:						
Deposits	\$579,176	\$548,902	\$313,430	\$235,472	\$	—
Advances from FHLB of New York	30,000	29,994	—	29,994	—	—
Other borrowed money	19,403	18,896	—	18,896	—	—
Accrued interest payable	390	390	—	390	—	—

Cash and Cash Equivalents

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

Restricted Cash

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

Securities

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

FHLB-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 3. 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 the Company 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.

Interest-Bearing Deposits

The carrying amounts for interest-bearing deposits approximates fair value and are classified as Level 2 because they represent interest-bearing deposits with a maturity greater than one year.

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, Repos and Other Borrowed Money

The fair values of advances from the FHLB-NY, Repos 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.

Accrued Interest Payable

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

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, 2017 and March 31, 2017. 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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or

services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard, as modified and augmented by subsequently issued pronouncements (ASUs 2016-08, 2016-10, 2016-12, 2016-20, 2017-05 and 2017-13) is effective for annual periods beginning after December 15, 2017 (April 1, 2018 for the Company), and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently planning to use the retrospective approach with the cumulative effect adjustment approach to uncompleted contracts at the date of adoption. Management continues to assess the impact that this guidance will have on its consolidated financial statements and

related disclosures. Preliminarily, the Company has concluded that (1) a substantial majority of the Company's revenue is comprised of interest income on financial assets, which is explicitly excluded from the scope of ASU 2014-09 and (2) based on our understanding of the standard and subsequent modification and the nature of our non-interest revenue, many elements of non-interest income will be unaffected. However, at this stage, we have not yet performed detailed analysis on contracts that underly the potentially impacted accounts and, accordingly, cannot make a formal assessment of the impact thereon. Adoption of the new standard will require expanded disclosures.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments will (1) require equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (4) require public business entities to use an exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) require an entity to separately present in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements, and (7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017 (for the Company, the fiscal year ended March 31, 2019), including interim periods within those fiscal years. The adoption of this standard by public entities is permitted as of the beginning of the year of adoption for selected amendments, including the amendment related to unrealized gains and losses on equity securities, by a cumulative effect adjustment to the statement of financial condition. At September 30, 2017, we had unrealized losses on equity securities of \$433 thousand, or 0.9% of stockholders' equity.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company currently expects that upon adoption of ASU 2016-02, ROU assets and lease liabilities will be recognized in the consolidated balance sheet in amounts that will be material.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Loss," which updates the guidance on recognition and measurement of credit losses for financial assets. The new requirements, known as the current expected credit loss model ("CECL") will require entities to adopt an impairment model based on expected losses rather than incurred losses. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the potential impact of the adoption of the new standard on its consolidated statements of financial condition and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," a consensus of the FASB's Emerging Issues Task Force. The update is intended to

reduce diversity in practice in how certain transactions are classified in the statement of cash flows, and provides guidance on how the following cash receipts and payments should be presented and classified in the statement of cash flows: debt prepayment or debt extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, settlements of insurance claims, settlements of corporate-owned and bank-owned life insurance policies, distributions received from equity method investees, and beneficial interests in securitization transactions. The ASU also clarifies when an entity should separate cash receipts and payments and classify them into more than one class of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the potential impact of the adoption of the new standard on its consolidated statement of cash flows.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," to require that a statement of cash flows explain the change during the period in restricted cash or restricted cash equivalents, in

25

addition to changes in cash and cash equivalents. The update provides guidance that restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has completed its assessment of the impact of adopting of ASU 2016-18 and expects that as a result of adopting the ASU, the Company will reclassify beginning-of-period and end-of-period balances in the statement of cash flows to include restricted cash in addition to cash and cash equivalents at amounts that will not be material to the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The amendments are effective for fiscal years beginning after December 15, 2018 (for the Company, the fiscal year ending March 31, 2020), and interim periods within those fiscal years. Based on management's review of the securities in the Company's portfolio at March 31, 2017, the adoption of the standard is not expected to have a material impact on the Company's consolidated statements of financial condition and results of operations.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting," which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of the standard is not expected to have a material impact on the Company's consolidated statements of financial condition and results of operations.

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

Explanatory Note

Within this report, we have included restated results for the three and six months ended September 30, 2016, which are noted as "Restated 2016." Our consolidated financial statements as of and for the three and six months ended September 30, 2016 included in this Quarterly Report on Form 10-Q have been restated from the original filing.

Forward-Looking Statements

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

The effect of the Restatement of our previously issued financial statements for the year ended March 31, 2016 and the quarterly periods of 2016 and 2017, as described in Note 1 to the restated financial statements on Form 10-K, filed with the SEC on November 9, 2017, and any claims, investigations, or proceedings arising as a result;

Our ability to remediate the material weakness in our internal controls over financial reporting described in Item 9A of our annual report on Form 10-K and our ability to maintain effective internal controls and procedures in the future;

The ability of the Bank to comply with the Formal Agreement between the Bank and the Office of the Comptroller of the Currency, and the effect of the restrictions and requirements of the Formal Agreement on the Bank's non-interest expense and net income;

the ability of the Company to obtain approval from the Federal Reserve Bank of Philadelphia (the "Federal Reserve Bank") to distribute all future interest payments owed to the holders of the Company's subordinated debt securities;

the limitations imposed on the Company by board resolutions which require, among other things, written approval of the Federal Reserve Bank 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);

changes in our existing loan portfolio composition (including reduction in commercial real estate loan concentration) 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;

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.

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 nine branches and three 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 among the largest African-American operated banks 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 fourth consecutive "Outstanding" rating, issued by the OCC following its most recent Community Reinvestment Act ("CRA") examination in January 2016. The OCC found that approximately 75% of originated and purchased 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 \$666.4 million in assets and 132 employees as of September 30, 2017.

Carver Federal engages in a wide range of consumer and commercial banking services. The Bank 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 and multifamily 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 nine 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 received a second NMTC award of \$65 million in May 2009, and a third award of \$25 million in August 2011. CCDC provides funding to 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 projects 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, 2017, all three award allocations have been fully utilized in qualifying projects.

The Bank's unconsolidated variable interest entities ("VIEs"), 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
	Recognized Gain (Loss) (000's)	Total Rights transferred	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments	Maximum Funding exposure to commitments loss	
Carver Statutory Trust 1	\$ —	\$ —	\$ 13,400	\$ 13,400	\$ 13,000	\$ 400	\$ —	\$ 13,400
CDE 13	500	10,500	—	—	—	—	—4,095	4,095
CDE 14	400	10,000	—	—	—	—	—3,900	3,900
CDE 15, CDE 16, CDE 17	900	20,500	15,548	15,548	—	2	—7,995	7,997
CDE 18	600	13,254	13,282	13,282	—	1	—5,169	5,170
CDE 19	500	10,746	11,024	11,024	—	1	—4,191	4,192
CDE 20	625	12,500	11,995	11,995	—	1	—4,875	4,876
CDE 21	625	12,500	12,147	12,147	—	1	—4,875	4,876
Total	\$ 4,150	\$ 90,000	\$ 77,396	\$ 77,396	\$ 13,000	\$ 406	\$ —35,100	\$ 48,506

Critical Accounting Policies

Note 2 to the Company's audited Consolidated Financial Statements for the year ended March 31, 2017 included in its 2017 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, assessment of the recoverability of the deferred tax asset, and the fair value of financial instruments 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 2017 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. Based upon adequate management information systems and effective methodologies for estimating losses, management has established a LEP floor of one year on all segments. In some segments, such as in its Commercial Real Estate, Multifamily and Business segments, the Bank demonstrates a 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

The Bank 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 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 not be 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 intent and ability to

held 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, 2017, 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. Management is continually reviewing the operation of the Company with a view to the future. Based on management's current analysis and the appropriate accounting literature, management is of the opinion that a full valuation allowance is appropriate. 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 is currently subject to an annual limitation of approximately \$900 thousand. The Company has a net deferred tax asset ("DTA") of \$0 as a result of recording a full valuation allowance on its DTA. The valuation allowance was initially recorded during fiscal year 2011, and has remained as management concluded and continues to conclude that it is "more likely than not" that the Company will not be able to fully realize the benefit of its deferred tax assets.

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, 2017, 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, 2017. 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. On October 28, 2011, 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, 2017.

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, including interest payments on our subordinated debt securities. Additionally, Carver Federal has other sources of liquidity including the ability to borrow from the Federal Home Loan Bank of New York ("FHLB-NY") utilizing unpledged mortgage-backed securities and certain mortgage loans, the sale of available-for-sale securities and the sale of certain mortgage loans. Net borrowings decreased \$10.0 million, or 20.2%, to \$39.4 million at September 30, 2017, compared to \$49.4 million at March 31, 2017 due to the repayment of FHLB short-term borrowings and a subordinated debt during the six month period. At September 30, 2017, the Bank had \$25.0 million in FHLB-NY borrowings with a weighted average rate of 1.50% scheduled to mature over the next twelve months. Due to the late filing of Carver's 2016 Form 10-K (as filed with the Securities and Exchange Commission on August 12, 2016), and the going concern language contained therein, the FHLB-NY notified Carver on July 1, 2016 that it would be restricting Carver's borrowings to 30-day terms. At September 30, 2017, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional \$21.1 million on a secured basis, utilizing mortgage-related loans and securities as collateral.

The Bank's most liquid assets are cash and short-term investments. The level of these assets is dependent on the Bank's operating, investing and financing activities during any given period. At September 30, 2017 and March 31, 2017, assets qualifying for short-term liquidity, including cash and cash equivalents, totaled \$67.7 million and \$58.7 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, 2017, total cash and cash equivalents increased \$9.0 million to \$67.7 million at September 30, 2017, compared to \$58.7 million at March 31, 2017, reflecting cash used in financing activities of \$19.7 million and cash used in operating activities of \$3.1 million, offset by cash provided by investing activities of \$31.7 million.

Net cash used in financing activities of \$19.7 million resulted from net decreases in deposits of \$9.7 million and repayment of a short term borrowing and a subordinated debt borrowing of \$10.0 million. Net cash provided by investing activities of \$31.7 million was primarily attributable to net loan principal repayments. Net cash used in operating activities totaled \$3.1 million during the quarter.

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. In common with all U.S. banks, Carver's capital adequacy is measured in accordance with the Basel III regulatory framework governing capital adequacy, stress testing, and market liquidity risk. The final rule, which became effective for the Bank on January 1, 2015, established a minimum Common Equity Tier 1 (CET1) ratio, a minimum leverage ratio and increases in the Tier 1 and Total risk-based capital ratios. The rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of CET1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. As of September 30, 2017, the Bank's capital conservation buffer ("buffer") was 1.25%, making its minimum CET1 plus buffer 5.75%, its minimum Tier 1 capital plus buffer 7.25% and its minimum total capital plus buffer 9.25%. On January 1, 2018, the capital conservation buffer will increase to 1.875%. Regardless of

Basel III's minimum requirements, Carver, as a result of the Formal Agreement, was issued an Individual Minimum Capital Ratio ("IMCR") letter by the OCC, which requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier1 leverage ratio and 12% for its total risk-based capital ratio.

The table below presents the capital position of the Bank at September 30, 2017:

	September 30, 2017	
(\$ in thousands)	Amount	Ratio
Tier 1 leverage capital		
Regulatory capital	\$61,103	9.28 %
Individual minimum capital requirement	59,268	9.00 %
Minimum capital requirement	26,341	4.00 %
Excess	34,762	5.28 %
Common equity Tier 1		
Regulatory capital	\$61,103	12.30 %
Minimum capital requirement	22,363	4.50 %
Excess	38,740	7.80 %
Tier 1 risk-based capital		
Regulatory capital	\$61,103	12.30 %
Minimum capital requirement	29,817	6.00 %
Excess	31,286	6.30 %
Total risk-based capital		
Regulatory capital	\$66,229	13.33 %
Individual minimum capital requirement	59,634	12.00 %
Minimum capital requirement	39,756	8.00 %
Excess	26,473	5.33 %

Bank Regulatory Matters

On October 23, 2015 the Board of Directors of Carver Bancorp, Inc., in response to the FRB's Bank Holding Company Report of Inspection issued on April 14, 2015, adopted a Board Resolution ("the Resolution") as a commitment by the Company's Board to address certain supervisory concerns noted in the Reserve Bank's Report. The supervisory concerns are related to the Company's leverage, cash flow and accumulated deferred interest. As a result of those concerns, the Company is prohibited from paying any dividends without the prior written approval of the Reserve Bank.

On May 24, 2016, the Bank entered into a Formal Agreement with the OCC to undertake certain compliance-related and other actions as further described in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on May 27, 2016. As a result of the Formal Agreement, the Bank must obtain the approval of the OCC prior to effecting any change in its directors or senior executive officers. The Bank may not declare or pay dividends or make any other capital distributions, including to the Company, without first filing an application with the OCC and receiving the prior approval of the OCC. Furthermore, the Bank must seek the OCC's written approval and the FDIC's written concurrence before entering into any "golden parachute payments" as that term is defined under 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359.

At September 30, 2017, the Bank's capital level exceeded the regulatory requirements with a Tier 1 leverage capital ratio of 9.28%, Common Tier 1 capital ratio of 12.30%, Tier 1 risk-based capital ratio of 12.30%, and a total risk-based capital ratio of 13.33%.

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. At September 30,

34

2017, the Bank continues to service 125 loans with a principal balance of \$22.3 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, 2017 ⁽¹⁾	\$2,044
Gross new demands received	—
Loans repurchased/made whole	—
Demands rescinded	—
Advances on open claims	—
Principal payments received on open claims (16)	(16)
Open claims as of September 30, 2017 ⁽¹⁾	\$2,028

⁽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 Bank has not received a request to repurchase any of these loans since the second quarter of fiscal 2015, and there have not been any additional requests from FNMA for loans to be reviewed. The reserves totaled \$190 thousand as of September 30, 2017. The table below summarizes changes in our representation and warranty reserves during the six months ended September 30, 2017:

\$ in thousands	September 30, 2017
Representation and warranty repurchase reserve, March 31, 2017 ⁽¹⁾	\$ 162
Net provision for repurchase losses ⁽²⁾	28
Representation and warranty repurchase reserve, September 30, 2017 ⁽¹⁾	\$ 190

⁽¹⁾ Reported in our consolidated statements of financial condition as a component of other liabilities.

⁽²⁾ Component of other non-interest expense.

Comparison of Financial Condition at September 30, 2017 and March 31, 2017

Assets

At September 30, 2017, total assets were \$666.4 million, reflecting a decrease of \$21.5 million, or 3.1%, from total assets of \$687.9 million at March 31, 2017. The reduction is primarily attributable to a \$27.1 million decline in the loan portfolio, net of the allowance for loan losses, partially offset by an increase in cash and cash equivalents of \$9.0 million. The decrease in the loan portfolio was largely due to loan attrition through scheduled paydowns and payoffs, a significant amount of which the Bank did not actively try to retain as it is making a determined effort to reduce its concentration level of commercial real estate loans ("CRE").

Total cash and cash equivalents decreased \$9.0 million, or 15.3%, to \$67.7 million at September 30, 2017, compared to \$58.7 million at March 31, 2017 due to the strategic management of deposit outflows during the period.

Total investment securities decreased \$3.2 million, or 4.4%, to \$69.2 million at September 30, 2017, compared to \$72.4 million at March 31, 2017 due to scheduled principal payments received.

Gross portfolio loans decreased \$27.0 million, or 5.0%, to \$518.5 million at September 30, 2017, compared to \$545.6 million at March 31, 2017, as the Bank continued to focus its efforts on the targeted reduction of its concentration in commercial real estate mortgage loans through attrition in and payoffs of non owner occupied CRE loans.

Loans held-for-sale ("HFS") decreased \$944 thousand to zero at September 30, 2017, as three loans were transferred back to the Bank's loans held-for-investment ("HFI") portfolio.

Liabilities and Equity

Total liabilities decreased \$20.7 million, or 3.2%, to \$619.7 million at September 30, 2017, compared to \$640.5 million at March 31, 2017, as a result of a decline in the Bank's deposits and the repayment of borrowed funds.

Deposits decreased \$9.7 million, or 1.7%, to \$569.5 million at September 30, 2017, compared to \$579.2 million at March 31, 2017, due primarily to declines in brokered money market accounts and interest-bearing checking accounts. The Company did not actively pursue the retention of certain non-relationship deposits as it has been seeking to reduce its overall level of brokered deposits.

Advances from the Federal Home Loan Bank of New York and other borrowed money decreased \$10.0 million, or 20.2%, to \$39.4 million at September 30, 2017, compared to \$49.4 million at March 31, 2017 as the Bank repaid a subordinated debt borrowing and FHLB short-term borrowings during the period.

Total equity decreased \$724 thousand, or 1.5%, to \$46.7 million at September 30, 2017, compared to \$47.4 million at March 31, 2017. The decrease was due to a net loss of \$1.2 million for the six month period, partially offset by a decrease of \$508 thousand in unrealized losses on securities available-for-sale.

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

36

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, 2017.

The following table reflects the Bank's outstanding lending commitments and contractual obligations as of September 30, 2017:

\$ in thousands	
Commitments to fund mortgage loans	\$456
Commitments to fund commercial and consumer loans	1,400
Lines of credit	7,073
Letters of credit	69
Commitment to fund private equity investment	640
Total	\$9,638

Comparison of Operating Results for the Three and Six Months Ended September 30, 2017 and 2016

Overview

The Company reported a net loss of \$594 thousand for the three months ended September 30, 2017, compared to a net loss of \$251 thousand for the comparable prior year quarter. The change in our results was primarily driven by lower non-interest income and a provision for loan losses in the current quarter compared to a recovery of loan losses in the prior year quarter. For the six months ended September 30, 2017, the Company reported a net loss of \$1.2 million, compared to net income of \$74 thousand for the prior year period. The change in our results was primarily driven by lower net interest income and an increase in the provision for loan losses in the current period compared to a recovery of loan losses in the prior year period.

The following table reflects selected operating ratios for the three and six months ended September 30, 2017 and 2016 (unaudited):

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Selected Financial Data:	Three Months Ended September 30, 2016		Six Months Ended September 30, 2016	
	2017	Restated (a)	2017	Restated (a)
Return on average assets ⁽¹⁾	(0.36)%	(0.15)%	(0.37)%	0.02 %
Return on average stockholders' equity ^{(2) (8)}	(5.01)%	(1.94)%	(5.28)%	0.28 %
Return on average stockholders' equity, excluding AOCI ^{(2) (8)}	(4.87)%	(1.93)%	(5.13)%	0.28 %
Net interest margin ⁽³⁾	3.15 %	3.02 %	3.08 %	3.10 %
Interest rate spread ⁽⁴⁾	3.01 %	2.89 %	2.94 %	2.97 %
Efficiency ratio ⁽⁵⁾	108.99 %	106.46 %	108.48 %	101.92 %
Operating expenses to average assets ⁽⁶⁾	4.13 %	3.95 %	4.04 %	3.79 %
Average stockholders' equity to average assets ^{(7) (8)}	7.22 %	7.57 %	7.03 %	7.37 %
Average stockholders' equity, excluding AOCI, to average assets ^{(7) (8)}	7.42 %	7.59 %	7.24 %	7.39 %
Average interest-earning assets to average interest-bearing liabilities	1.19	x 1.19	x 1.19	x 1.18 x

(a) September 30, 2016 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

(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 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. These fluctuations have been excluded due to the unpredictable nature of this item and is not necessarily indicative of current operating or future performance.

\$ in thousands	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016 Restated ^(a)	2017	2016 Restated (a)
Average Stockholders' Equity				
Average Stockholders' Equity	\$47,468	\$51,854	\$46,737	\$52,128
Average AOCI	(1,277)	(133)	(1,367)	(80)
Average Stockholders' Equity, excluding AOCI	\$48,745	\$51,987	\$48,104	\$52,208
Return on Average Stockholders' Equity	(5.01)%	(1.94)%	(5.28)%	0.28 %
Return on Average Stockholders' Equity, excluding AOCI	(4.87)%	(1.93)%	(5.13)%	0.28 %
Average Stockholders' Equity to Average Assets	7.22 %	7.57 %	7.03 %	7.37 %
Average Stockholders' Equity, excluding AOCI, to Average Assets	7.42 %	7.59 %	7.24 %	7.39 %

^(a) September 30, 2016 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

Analysis of Net Interest Income

The Company's profitability is primarily dependent upon net interest income and is also affected by the provision for loan losses, non-interest income, non-interest expense and income taxes. Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned and paid. The Company's net interest income is significantly impacted by changes in interest rate and market yield curves. Net interest income decreased \$16 thousand, or 0.3%, to \$5.1 million for the three months ended September 30, 2017, compared to \$5.1 million for the same quarter last year. Net interest income decreased \$721 thousand, or 6.7%, to \$10.0 million for the six months ended September 30, 2017, compared to \$10.8 million for the prior year period.

The following tables set forth certain information relating to the Company's average interest-earning assets and average interest-bearing liabilities, and their related average yields and costs for the three and six months ended September 30, 2017 and 2016. 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 includes fees, which are considered adjustments to yield.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	For the Three Months Ended September 30,							
	2017				2016 Restated ^(a)			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Interest-Earning Assets:								
Loans ⁽¹⁾	\$529,093	\$5,797	4.38 %		\$555,366	\$5,924	4.27 %	
Mortgage-backed securities	47,413	245	2.07 %		32,797	146	1.78 %	
Investment securities	13,391	71	2.12 %		16,557	113	2.73 %	
Restricted cash deposit	—	—	— %		234	—	0.03 %	
Equity securities ⁽²⁾	2,251	27	4.76 %		2,181	25	4.55 %	
Other investments and federal funds sold	54,168	199	1.46 %		67,692	118	0.69 %	
Total interest-earning assets	646,316	6,339	3.92 %		674,827	6,326	3.75 %	
Non-interest-earning assets	10,859				10,459			
Total assets	\$657,175				\$685,286			
Interest-Bearing Liabilities:								
Deposits								
Interest-bearing checking	\$23,830	\$3	0.05 %		\$33,389	\$13	0.15 %	
Savings and clubs	101,837	62	0.24 %		96,801	66	0.27 %	
Money market	107,271	123	0.45 %		142,537	216	0.60 %	
Certificates of deposit	266,652	758	1.13 %		247,288	622	1.00 %	
Mortgagors deposits	2,213	10	1.79 %		2,061	12	2.31 %	
Total deposits	501,803	956	0.76 %		522,076	929	0.71 %	
Borrowed money	41,196	296	2.85 %		44,316	294	2.63 %	
Total interest-bearing liabilities	542,999	1,252	0.91 %		566,392	1,223	0.86 %	
Non-interest-bearing liabilities								
Demand	55,896				54,473			
Other liabilities	10,812				12,567			
Total liabilities	609,707				633,432			
Stockholders' equity	47,468				51,854			
Total liabilities and equity	\$657,175				\$685,286			
Net interest income		\$5,087				\$5,103		
Average interest rate spread			3.01 %				2.89 %	
Net interest margin			3.15 %				3.02 %	

^(a) September 30, 2016 average balances and yields have been restated from previously reported results to include the effect of restatement adjustments from prior periods. Refer to Note 1 for further detail.

⁽¹⁾ Includes nonaccrual loans

⁽²⁾ Includes FHLB-NY stock

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	For the Six Months Ended September 30,							
	2017				2016 Restated ^(a)			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Interest-Earning Assets:								
Loans ⁽¹⁾	\$531,752	\$11,449	4.31 %		\$570,027	\$12,377	4.34 %	
Mortgage-backed securities	48,119	495	2.06 %		33,338	316	1.90 %	
Investment securities	13,442	151	2.25 %		21,482	255	2.37 %	
Restricted cash deposit	139	—	0.03 %		230	—	0.03 %	
Equity securities ⁽²⁾	2,272	50	4.39 %		2,503	56	4.46 %	
Other investments and federal funds sold	55,557	365	1.31 %		67,319	242	0.72 %	
Total interest-earning assets	651,281	12,510	3.84 %		694,899	13,246	3.81 %	
Non-interest-earning assets	13,450				12,047			
Total assets	\$664,731				\$706,946			
Interest-Bearing Liabilities:								
Deposits								
Interest-bearing checking	\$27,370	\$8	0.06 %		\$33,290	\$26	0.16 %	
Savings and clubs	102,109	123	0.24 %		96,724	132	0.27 %	
Money market	117,768	299	0.51 %		149,885	459	0.61 %	
Certificates of deposit	258,236	1,427	1.10 %		253,388	1,226	0.97 %	
Mortgagors deposits	2,440	31	2.53 %		2,411	21	1.74 %	
Total deposits	507,923	1,888	0.74 %		535,698	1,864	0.69 %	
Borrowed money	41,370	582	2.81 %		51,971	621	2.38 %	
Total interest-bearing liabilities	549,293	2,470	0.90 %		587,669	2,485	0.84 %	
Non-interest-bearing liabilities								
Demand	57,083				55,108			
Other liabilities	11,618				12,041			
Total liabilities	617,994				654,818			
Stockholders' equity	46,737				52,128			
Total liabilities and equity	\$664,731				\$706,946			
Net interest income		\$10,040				\$10,761		
Average interest rate spread			2.94 %				2.97 %	
Net interest margin			3.08 %				3.10 %	

^(a) September 30, 2016 average balances and yields have been restated from previously reported results to include the effect of restatement adjustments from prior periods. Refer to Note 1 for further detail.

⁽¹⁾ Includes nonaccrual loans

⁽²⁾ Includes FHLB-NY stock

Interest Income

Interest income increased \$13 thousand, or 0.2%, to \$6.3 million for the three months ended September 30, 2017, compared to \$6.3 million for the prior year quarter. For the six months ended September 30, 2017, interest income decreased \$736 thousand, or 5.6%, to \$12.5 million compared to \$13.2 million for the prior year period. Interest income on loans decreased \$928 thousand, or 7.5%, due to lower average balances in the current period of \$38.3

million. The decrease in average loans outstanding is the result of a focused effort to reduce the concentration level of the Company's Commercial Real Estate loans. The loss in loan interest income was partially offset by a \$179 thousand increase in interest on mortgage-backed securities, which was due to higher average balances of \$14.8 million and yield of 16 basis points compared to the prior year period.

Interest Expense

41

Interest expense increased \$29 thousand, or 2.4%, to \$1.3 million for the three months ended September 30, 2017, compared to \$1.2 million for the prior year quarter. For the six months ended September 30, 2017, interest expense decreased \$15 thousand, or 0.6%, to \$2.5 million, compared to the prior year period. Interest expense on deposits increased minimally in both periods, while year to date interest expense on borrowings decreased \$39 thousand during the six months ended September 30, 2017 despite a 0.43% increase in the cost to borrow, due to a decline of \$10.6 million in average borrowings during the current year-to-date period.

Provision for Loan Losses and Asset Quality

The Bank maintains an ALLL that management believes is adequate to absorb inherent and probable losses in its loan portfolio. The adequacy of the ALLL is determined by management's continuous review of the Bank's loan portfolio, including the identification and review of individual problem situations that may affect a borrower's ability to repay. Management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral, current charge-offs and other factors that may affect the portfolio, including a review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio. 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 the 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, 2017.

The following table summarizes the activity in the ALLL for the six month periods ended September 30, 2017 and 2016 and the fiscal year ended March 31, 2017:

\$ in thousands	Six Months Ended September 30, 2017	Fiscal Year Ended March 31, 2017	Six Months Ended September 30, 2016
Beginning Balance	5,060	\$ 5,232	\$ 5,232
Less: Charge-offs	141	529	354
Add: Recoveries	83	328	233
Provision for (Recovery of) Loan Losses	124	29	(364)
Ending Balance	\$ 5,126	\$ 5,060	\$ 4,747

Ratios:

Net charge-offs (recoveries) to average loans outstanding (annualized)	0.02	%	0.04	%	0.04	%
Allowance to total loans	0.99	%	0.93	%	0.90	%
Allowance to non-performing loans	57.92	%	60.11	%	55.45	%

The Company recorded a \$4 thousand provision for loan loss for the three months ended September 30, 2017, compared to a \$160 thousand recovery of loan loss for the prior year quarter. Net charge-offs of \$11 thousand were recognized during the second quarter, compared to net charge-offs of \$276 thousand for the prior year quarter. For the six months ended September 30, 2017, the Company recorded a \$124 thousand provision for loan loss, compared to a \$364 thousand recovery of loan loss for the prior year period. Net charge-offs of \$58 thousand were recognized for the six months ended September 30, 2017, compared to net charge-offs of \$121 thousand in the prior year period.

At September 30, 2017, nonaccrual loans totaled \$8.9 million, or 1.3% of total assets, compared to \$8.4 million, or 1.2% of total assets at March 31, 2017. The ALLL was \$5.1 million at September 30, 2017, which represents a ratio of the ALLL to nonaccrual loans of 57.9% compared to a ratio of 60.1% at March 31, 2017. The ratio of the allowance for loan losses to total loans was 0.99% at September 30, 2017, compared to 0.93% at March 31, 2017.

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, 2017, loans classified as TDR totaled \$5.9 million, of which \$3.8 million were classified as performing. At March 31, 2017, loans classified as TDR totaled \$6.4 million, of which \$3.9 million were classified as performing.

At September 30, 2017, non-performing assets totaled \$9.5 million, or 1.4% of total assets compared to \$10.4 million, or 1.5% of total assets at March 31, 2017. 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, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	
Loans accounted for on a nonaccrual basis ⁽¹⁾ :						
Gross loans receivable:						
One-to-four family	\$5,583	\$4,703	\$3,899	\$3,466	\$3,211	
Multifamily	1,582	1,589	1,602	1,603	1,610	
Commercial real estate	1,382	1,389	993	1,004	1,015	
Business	303	1,026	1,922	2,421	2,725	
Consumer	—	—	2	3	—	
Total nonaccrual loans	8,850	8,707	8,418	8,497	8,561	
Other non-performing assets ⁽²⁾ :						
Real estate owned	604	787	990	1,166	1,311	
Loans held-for-sale	—	1,020	944	1,167	1,015	
Total other non-performing assets	604	1,807	1,934	2,333	2,326	
Total non-performing assets ⁽³⁾	\$9,454	\$10,514	\$10,352	\$10,830	\$10,887	
Non-performing loans to total loans	1.71	% 1.63	% 1.54	% 1.59	% 1.62	%
Non-performing assets to total assets	1.42	% 1.59	% 1.50	% 1.55	% 1.55	%
Allowance to total loans	0.99	% 0.96	% 0.93	% 0.87	% 0.90	%
Allowance to non-performing loans	57.92	% 58.95	% 60.11	% 54.37	% 55.45	%

⁽¹⁾ Nonaccrual status denotes any loan where the delinquency exceeds 90 days past due, or 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 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, 2017, there were \$3.5 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.

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 origination). At September 30, 2017, the Bank had \$6.1 million in subprime loans, or 1.2% of its total loan portfolio, of which \$1.3 million are non-performing loans.

Non-Interest Income

Non-interest income decreased \$118 thousand, or 9.4%, to \$1.1 million for the three months ended September 30, 2017, compared to \$1.3 million for the prior year quarter. For the six months ended September 30, 2017, non-interest income decreased

\$49 thousand, or 2.0%, to \$2.3 million compared to \$2.4 million for the prior year period. Other non-interest income in the prior period included miscellaneous loan fees. This was partially offset by higher depository fees earned during the current period as the Bank instituted fees for paper statements in an effort to move to more efficient electronic delivery channels.

Non-Interest Expense

Non-interest expense increased \$15 thousand, or 0.2%, to \$6.8 million for the three months ended September 30, 2017, compared to \$6.8 million for the prior year quarter. For the six months ended September 30, 2017, non-interest expense increased \$28 thousand, or 0.2%, to \$13.4 million compared to \$13.4 million for the prior year period. For both comparative periods, the Bank had higher employee compensation and benefits expense related to staffing costs associated with strengthening the Bank's regulatory and compliance infrastructure, as well as increased consulting fees related to the same. These were partially offset by decreases in other non-interest expense compared to the prior year period, primarily in advertising, legal and charge-off expenses.

Income Tax Expense

For the three months ended September 30, 2017, income tax expense was \$30 thousand. There was no income tax expense for the prior year quarter. For the six months ended September 30, 2017, income tax expense was \$60 thousand, compared to \$37 thousand for 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, 2017, 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. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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, 2017 filed on November 9, 2017, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2017. The material weaknesses in internal controls related to the lack of timely identification and accounting for loan maintenance changes and payment applications and the failure of controls over general ledger account reconciliations to timely identify and account for stale-dated and other uncollectable reconciling items.

(b) Remediation Plan

Changes have been implemented to address the fiscal year 2017 material weaknesses disclosed above. A quality control specialist has been added to the loan operations department to ensure that system inputs and maintenance are in accordance with contractual terms. Reconciliations between the Company's loan system and the servicer system reports were put into place immediately, creating a three-way reconciliation between the Company's core loan accounting system, its general ledger system and the records of the third party service provider. Parameter changes have been made to the loan servicing system to correct principal and interest allocation of payments, automate rate changes and account for partial payments. Corrections to individual loans accounts will be completed during fiscal year 2018. The systemic modifications, when coupled with the loan quality control specialist and new reconciliation controls, are expected to remediate and cure the identified control deficiency.

General ledger reconciliation policies and procedures have been revised to exert tighter control over the process, and a policy for the timely write-off of stale-dated items has been established. "Stale-dated" has been defined by type of account and is based on the risk level of the account, as is the required frequency of reconciliation. Responsibility for the clearing of open

items has been mandated and department heads will be required to provide action plans for resolution of open items older than 30 days when submitting monthly reconciliations. Reconciliations for accounts identified as high risk must also be signed by the Chief Financial Officer and the Chief Operations Officer. Accountability for excessive write-offs will become part of the annual review process. Education on proper reconciliation procedures will be conducted and templates have been developed so that supervisors may more easily review consistent formats. These changes will combine to create a "best practices" control environment for general ledger reconciliations and cure the identified material weaknesses.

(c) Changes in Internal Control over Financial Reporting

Other than the remediations 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 have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company and the Bank or one of its wholly-owned subsidiaries are parties to various legal proceedings incident to their business. At September 30, 2017, 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. There were no legal proceedings pending or known to be contemplated against us that in the opinion of management, would be expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank.

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, 2017.

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, 2017.
- (b) Not applicable.
- (c) The Company did not repurchase any of its securities during the quarter ended September 30, 2017.

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:

46

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 Formal Agreement
by and between
Carver Federal
Savings Bank and
the Office of the

- Comptroller of the
Currency ⁽⁵⁾
Statement Regarding
- 11 Computation of Per
Share Earnings
Certification of
Chief Executive
- 31.1 Officer pursuant to
Rule
13a-14(a)/15d-14(a)
Certification of
Chief Financial
- 31.2 Officer pursuant to
Rule
13a-14(a)/15d-14(a)
Certification of
Chief Executive
Officer furnished
- 32.1 pursuant to Section
906 of the
Sarbanes-Oxley Act
of 2002, 18 U.S.C.
1350
Certification of
Chief Financial
Officer furnished
- 32.2 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,
2017, formatted in
XBRL (Extensive
Business Reporting
Language): (i)
Consolidated
Statements of
Financial Condition
as of September 30,
2017 (unaudited)
and March 31, 2017;
(ii) Consolidated
Statements of
Operations for the
three and six months

ended September 30,
2017 and 2016
(unaudited); (iii)
Consolidated
Statements of
Comprehensive
Income (Loss) for
the three and six
months ended
September 30, 2017
and 2016
(unaudited); (iv)
Consolidated
Statements of
Changes in Equity
for the six months
ended September 30,
2017 and 2016
(unaudited); (v)
Consolidated
Statements of Cash
Flows for the six
months ended
September 30, 2017
and 2016
(unaudited); and (vi)
Notes to
Consolidated
Financial
Statements.

Incorporated herein
by reference from
the Exhibits to the
Form S-4,
Registration

- (1) 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.
Incorporated herein
by reference from
the Exhibits to the
(3) Company's Annual
Report on Form
10-K for the fiscal
year ended March
31, 2006.
Incorporated by
reference to the
Exhibits to the
Company's Current
(4) Report on Form 8-K
filed with the
Securities and
Exchange
Commission on July
6, 2011.
Incorporated herein
by reference to the
Exhibits to the
Company's Current
(5) Report on Form 8-K
filed with the
Securities and
Exchange
Commission on May
27, 2016.

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 20, 2017 /s/ Michael T. Pugh

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

Date: November 20, 2017 /s/ Christina L. Maier

Christina L. Maier
First Senior Vice President and Chief Financial Officer
(Principal Accounting Officer and Principal Financial Officer)