CARVER BANCORP INC
Form 10-Q
February 14, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 31, 2011
OR

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

For the transition period from to
Commission File Number: 1-13007
CARVER BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	13-3904174 (I.R.S. Employer Identification No.)
75 West 125th Street, New York, New York (Address of Principal Executive Offices)	10027 (Zip Code)

Registrant's telephone number, including area code: (718) 230-2900
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes oNo
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
o Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer x Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $0.01	3,697,264
Class	Outstanding at December 31, 2011

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PART I. FINANCIAL INFORMATION

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except per share data)

	December 31, 2011 (unaudited)	March 31, 2011
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$104,854	$36,725
Money market investments	1,821	7,352
Total cash and cash equivalents	106,675	44,077
Restricted cash	6,415	—
Investment securities:		
Available-for-sale, at fair value	55,712	53,551
Held-to-maturity, at amortized cost (fair value of $12,203 and $18,124 at December 31, 2011 and March 31, 2011, respectively)	11,509	17,697
Total investments	67,221	71,248
Loans held-for-sale (“HFS”)	22,490	9,205
Loans receivable:		
Real estate mortgage loans	410,848	525,894
Commercial business loans	46,077	53,060
Consumer loans	1,252	1,349
Loans, net	458,177	580,303
Allowance for loan losses	(20,411)	(23,147)
Total loans receivable, net	437,766	557,156
Premises and equipment, net	9,878	11,040
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	3,969	3,353
Accrued interest receivable	2,354	2,854
Other assets	13,970	10,282
Total assets	$670,738	$709,215
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Deposits:		
Savings	$101,447	$106,906
Non-Interest Bearing Checking	74,871	123,706
NOW	27,174	27,297
Money Market	85,077	74,329
Certificates of Deposit	196,626	228,460
Total deposits	485,195	560,698
Advances from the FHLB-NY and other borrowed money	113,437	112,641
Other liabilities	9,206	8,159
Total liabilities	607,838	681,498

Stockholders' equity:		
Preferred stock, (par value $0.01, per share), 45,118 Series D shares, with a liquidation preference of $1,000 per share, issued and outstanding	45,118	—
Preferred stock (par value $0.01 per share, 2,000,000 shares authorized; 18,980 Series B shares, with a liquidation preference of $1,000 per share, issued and outstanding.	—	18,980
*Common stock (par value $0.01 per share: 10,000,000 shares authorized; 3,697,264 and 168,312 shares issued; 3,697,264 and 165,618 shares outstanding at December 31, 2011 and March 31, 2011, respectively)	61	25
Additional paid-in capital	53,896	27,026
Accumulated deficit	(37,944)	(21,464)
Non-controlling interest	2,237	4,038
Treasury stock, at cost (2,090 shares at December, 2011 and 2,695 and March 31, 2011, respectively)	(447)	(569)
Accumulated other comprehensive income (loss)	(21)	(319)
Total stockholders' equity	62,900	27,717
Total liabilities and stockholders equity	$670,738	$709,215

See accompanying notes to consolidated financial statements

(*) Common stock shares for all periods presented reflects a 1 for 15 reverse stock split which was effective on October 27, 2011

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Interest Income:				
Loans	$6,416	$8,021	$20,076	$25,656
Mortgage-backed securities	279	460	1,018	1,572
Investment securities	114	105	340	263
Money market investments	102	19	151	77
Total interest income	6,911	8,605	21,585	27,568
Interest expense:				
Deposits	1,069	1,366	3,012	4,386
Advances and other borrowed money	785	960	2,560	2,984
Total interest expense	1,854	2,326	5,572	7,370
Net interest income	5,057	6,279	16,013	20,198
Provision for loan losses	113	6,242	12,290	20,318
Net interest income after provision for loan losses	4,944	37	3,723	(120)
Non-interest income:				
Depository fees and charges	740	725	2,212	2,224
Loan fees and service charges	203	183	689	618
Gain on sale of securities, net	—	1	—	764
Gain on sales of loans, net	19	(1)	154	7
New Market Tax Credit (“NMTC”) fees	—	473	—	1,654
Lower of cost or market adjustment on loans held for sale	(530)	—	(905)	—
Other	121	349	323	569
Total non-interest income	553	1,730	2,473	5,836
Non-interest expense:				
Employee compensation and benefits	3,006	2,664	9,188	8,771
Net occupancy expense	903	928	2,805	2,880
Equipment, net	545	587	1,625	1,672
Consulting fees	165	498	370	1,043
Federal deposit insurance premiums	368	502	1,177	1,253
Other	2,789	2,459	7,531	7,120
Total non-interest expense	7,776	7,638	22,696	22,739
Loss before income taxes	(2,279)	(5,871)	(16,500)	(17,023)
Income tax (benefit)/expense	(1,004)	2,317	(927)	17,018
Non Controlling interest, net of taxes [1]	(595)	—	687	—
Net loss	$(680)	$(8,188)	$(16,260)	$(34,041)
Loss per common share:				
Basic [*]	$(0.26)	$(49.58)	$(16.81)	$(207.67)

(1) The Company has adjusted the non-controlling interest, net of taxes in the Consolidated Statements of Operations for the three and nine months ended December 31, 2011 to adjust for an overstatement of non-controlling interest, net of taxes in the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011, resulting in an overstatement of the net loss. The non-controlling interest, net of taxes reported for each of these periods was overstated by approximately $238 thousand.

(*) Common stock shares for all periods presented reflects a 1 for 15 reverse stock split which was effective on October 27, 2011
See accompanying notes to consolidated financial statements

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
For the Nine months ended December 31, 2011

(In thousands)
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Non-controlling interest	Accumulated deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance—March 31, 2011	$18,980	$25	$27,026	$(569)	$4,038	$(21,464)	$(319)	$27,717
Net loss	—	—	—	—	—	(16,260)	—	(16,260)
Minimum pension liability adjustment	—	—	—	—	—	—	—	—
Reclassification of gains included net of taxes	—	—	—	—	—	—	—	—
Change in net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	298	298
Comprehensive income (loss), net of taxes:	—	—	—	—	—	(16,260)	298	(15,962)
Transfer between Non Controlling and Controlling Interest	—	—	1,801	—	(1,801)	—	—	—
Accrued Preferred Dividends Paid	—	—	—	—	—	(364)	—	(364)
Accrued Preferred Dividends	—	—	(144)	—	—	144	—	—
Conversion of Series B preferred stock to common stock	(18,980)	24	18,956	—	—	—	—	—
Conversions of Series C preferred stock to Series D preferred stock	45,118	12	6,298	—	—	—	—	51,428
Treasury stock activity	—	—	(41)	122	—	—		81
Balance—December 31, 2011	$45,118	$61	$53,896	$(447)	$2,237	$(37,944)	$(21)	$62,900

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended December31,	
	2011	2010
OPERATING ACTIVITIES		
Net loss before attribution of noncontrolling interests	$(15,573)	$(34,041)
Noncontrolling interest	687	—
Net loss	(16,260)	(34,041)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	12,290	20,318
Deferred Tax Asset and related valuation allowance	—	14,461
Provision for REO losses	—	38
Stock based compensation expense	54	57
Depreciation and amortization expense	1,060	1,146
Amortization of intangibles	76	114
Loss from sale of real estate owned	216	20
Gain on sale of securities, net	—	(764)
Gain on sale of loans, net	(154)	(7)
Market adjustment on held for sale loans	905	—
Originations of loans held-for-sale	—	(2,413)
Proceeds from sale of loans held-for-sale	26,102	2,413
Decrease in accrued interest receivable	500	766
Increase in loan premiums and discounts and deferred charges	(210)	(510)
Decrease (increase) in premiums and discounts — securities	327	(695)
Increase in other assets	(432)	(1,833)
Increase in other liabilities	1,047	222
Net cash provided by/(used in) operating activities	25,521	(708)
INVESTING ACTIVITIES		
Purchases of securities: Available-for-sale	(19,625)	(77,106)
Purchases of securities: Held-to-maturity	—	(7,994)
Proceeds from principal payments, maturities, calls and sales of securities: Available-for-sale	17,675	68,444
Proceeds from principal payments, maturities, calls and sales of securities: Held-to-maturity	6,074	1,407
Originations of loans held-for-investment	(19,343)	(18,680)
Principal collections on loans	80,285	75,246
Proceeds on sale of loans	2,258	900
Increase in restricted cash	(6,415)	—
(Purchase)/redemption of FHLB-NY stock	(616)	754
Purchase of premises and equipment	(140)	(498)
Proceeds from sale of real estate owned	563	7
Net cash provided by investing activities	60,716	42,480
FINANCING ACTIVITIES		

Net decrease in deposits	(75,503)	(14,340)
Net change in FHLB-NY advances and other borrowings	796	(19,022)
Increase in capital	51,432	6,655
Dividends paid	(364)	(712)
Net cash used in financing activities	(23,639)	(27,419)
Net increase in cash and cash equivalents	62,598	14,353
Cash and cash equivalents at beginning of period	44,077	38,347
Cash and cash equivalents at end of period	$106,675	$52,700
Supplemental information:		
Noncash Transfers-		
Change in unrealized loss on valuation of available-for-sale investments, net	$349	$(672)
Transfers from loans held-for-investment to loans held-for-sale	$40,222	$2,600
Cash paid for-		
Interest	$5,851	$7,458
Income taxes	$808	$1,224

See accompanying notes to consolidated financial statements

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CARVER BANCORP, INC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Nature of operations

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

“Carver,” the “Company,” “we,” “us” or “our” refers to the Holding Company along with its consolidated subsidiaries. The Ba 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 to stock form and issued 2,314,275 shares of its common stock, par value $0.01 per share. On October 17, 1996, the Bank completed its reorganization into a holding company structure (the “Reorganization”) and became a wholly owned subsidiary of the Holding Company. Collectively, the Holding Company, the Bank and the Holding Company’s other direct and indirect subsidiaries are referred to herein as the “Company” or “Carver.”

In September 2003, the Holding 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 Holding Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidations,” Carver Statutory Trust I is unconsolidated for financial reporting purposes.

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

On February 10, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (“Orders”) with the Office of Thrift Supervision ("OTS"). The OTS issued these Orders based upon its findings that the Company was operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it is operating with an excessive level of adversely classified assets; and earnings inadequate to augment its capital. Effective July 21, 2011, supervisory authority for the Orders passed to the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency. No assurances can be given that the Bank and the Company will continue to comply with all provisions of the Orders. Failure to comply with these provisions could result in further regulatory actions to be taken by the regulators.

On June 29, 2011 the Company raised $55 million of capital by issuing 55,000 shares of mandatorily convertible non-voting participating preferred stock, Series C (the "Series C preferred stock"). The issuance resulted in a $51.4 million increase in liquidity after considering the effect of various expenses associated with the capital raise. The capital raise enabled the Company on June 30, 2011 to make a capital injection of $37 million in the Bank. In December 2011 another $7 million capital injection was made in the Bank. The remainder of the net capital raised is retained by the Company for future strategic purposes. No assurances can be given that the amount of capital raised is sufficient to absorb the expected losses in the Bank's loan portfolio. Should the losses be greater than expected, additional capital may be necessary in the future.

On October 25, 2011 Carver's stockholders voted to approve a 1 for 15 reverse stock split. A separate vote of approval was given to convert the Series C preferred stock to no-cumulative non-voting participating preferred stock, Series D ("the Series D preferred stock") and to common stock and to exchange the Treasury Community Development Capital

Initiative ("CDCI") Series B preferred stock for common stock.

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

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

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the March 31, 2011 Annual Report to Stockholders on Form 10-K. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, realization of deferred tax assets, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future write downs of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

The Company adjusted the non-controlling interest defined as "Non Controlling interest, net of taxes" in the Consolidated Statements of Operations at December 31, 2011 and the Other Liabilities in the Consolidated Statements of Financial Condition to adjust for an overstatement of non-controlling interest in the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011, resulting in an overstatement of the net loss by approximately $238 thousand net of tax . The non-controlling interest reported for each of these periods was overstated by approximately $238 thousand net of tax. The effect on the loss per share was $0.10 for the quarter ended March 31, 2011, $1.45 for quarter ended June 30, 2011, and $1.44 for the quarter ended September 30, 2011.

The Company adjusted the presentation of restricted cash deposits in the Consolidated Statement of Financial Condition at June 30, 2011 to present restricted cash as a separate financial statement caption. The Company reported restricted cash in total cash and cash equivalents at March 31, 2011. The Company recognized this adjustment in presentation as an investing activity in the Consolidated Statements of Cash Flows in the quarterly period ending June 30, 2011.

In addition, the Office of the Comptroller of the Currency ("OCC"), Carver Federal's regulator, as an integral part of its examination process, periodically reviews Carver Federal's allowance for loan losses and, if applicable, real estate owned valuations. The OCC may require Carver Federal to recognize additions to the allowance for loan losses or additional write-downs of real estate owned based on their judgments about information available to them at the time of their examination.

Investment Securities

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

Securities are classified as held-to-maturity and carried at amortized cost only if the Bank has a positive intent and ability to hold such securities to maturity. Securities held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using the level-yield method over the remaining period until maturity.

If not classified as held-to-maturity, securities are classified as available-for-sale demonstrating management's ability to sell in response to actual or anticipated changes in interest rates and resulting prepayment risk or any other factors. Available-for-sale securities are reported at fair value. Estimated fair values of securities are based on either published or security dealers' market value if available. If quoted or dealer prices are not available, fair value is

estimated using quoted or dealer prices for similar securities.

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

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized holding loss. Unrealized holding gains or losses for securities available-for-sale are excluded from earnings and reported net of deferred income taxes in accumulated other comprehensive income (loss), a component of Stockholders' Equity. Any other-than-temporary

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impairment is recognized in earnings when management has an intent to sell or that management believes it is more-likely-than-not that it will be required to sell the security prior to the recovery of the amortized cost basis. For those securities that management does not intend to sell or expect to be required to sell, credit related impairment is recognized in earnings, with the non-credit related impairment recorded in other comprehensive income/(loss). During fiscal 2011 and fiscal 2010 no impairment charges were recorded. Gains or losses on sales of securities of all classifications are recognized based on the specific identification method.

Loans Held-for-Sale
Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held for sale are based upon offered purchase prices, appraisals, broker price opinions or discounted cash flows.

Loans Receivable
Loans receivable are carried at unpaid principal balances plus unamortized premiums, purchase accounting mark-to-market adjustments, certain deferred direct loan origination costs and deferred loan origination fees and discounts, less the allowance for loan losses and charge offs.
The Bank defers loan origination fees and certain direct loan origination costs and amortizes or accretes such amounts as an adjustment of yield over the contractual lives of the related loans using methodologies which approximate the interest method. Premiums and discounts on loans purchased are amortized or accreted as an adjustment of yield over the contractual lives, of the related loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.
Loans are placed on non-accrual status when they are past due 90 days or more as to contractual obligations or when other circumstances indicate that collection is not probable. When a loan is placed on non-accrual status, any interest accrued but not received is reversed against interest income. Payments received on a non-accrual loan are either applied to protection advances, the outstanding principal balance or recorded as interest income, depending on an assessment of the ability to collect the loan. A non-accrual loan is restored to accrual status when principal and interest payments become less than 90 days past due and its future collectability is reasonably assured.
The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. Collateral dependent impaired loans are assessed individually to determine if the loan's current estimated fair value of the property that collateralizes the impaired loan, if any, less costs to sell the property, is less than the recorded investment in the loan. Cash flow dependent loans are assessed individually to determine if the present value of the expected future cash flows is less than the recorded investment in the loan. Smaller balance homogeneous loans are evaluated for impairment collectively unless they are modified in a trouble debt restructure. Such loans include one-to four family residential mortgage loans and consumer loans.

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

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is a great amount of judgment applied to developing the ALLL. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio. Any change in the judgments utilized to develop the ALLL can change the ALLL. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans.

General Reserve Allowance

Carver's maintenance of a general reserve allowance in accordance with ASC Topic 450 includes Carver's evaluating the risk to loss potential of homogeneous pools of loans based upon a review of 10 different factors that are then applied to each

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pool. The pools of loans ("Loan Type") are:
1-4 Family
Construction
Multifamily
Commercial Real Estate
Business Loans
SBA Loans
Other (Consumer and Overdraft Accounts)

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

Pass
Special Mention
Substandard
Doubtful
Loss

The Bank next applies to each pool a risk factor that determines the level of general reserves for that specific pool. The risk factors are comprised of actual losses for the most recent four quarters as a percentage of each respective Loan Type plus qualitative factors. As the loss experience for a Loan Type increases or decreases, the level of reserves required for that particular Loan Type also increases or decreases. Because actual loss experience may not adequately predict the level of losses inherent in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be adjusted based upon any of those factors. As the risk ratings worsen some of the qualitative factors tend to increase. The nine qualitative factors the Bank considers and may utilize are:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses (Policy & Procedures).
2. Changes in relevant economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments. (Economy).
3. Changes in the nature or volume of the loan portfolio and in the terms of loans (Nature & Volume).
4. Changes in the experience, ability, and depth of lending management and other relevant staff (Management).
5. Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans (Problem Assets).
6. Changes in the quality of the loan review system (Loan Review).
7. Changes in the value of underlying collateral for collateral-dependent loans (Collateral Values).
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations (Concentrations).
9. The effect of other external forces such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio (External Forces).

Specific Reserve Allowance

Carver also maintains a specific reserve allowance for Criticized & Classified loans individually reviewed for impairment in accordance with ASC Topic 310 guidelines and deemed to be impaired. ASC Topic 310 is the primary basis for determining if a loan is impaired, and if impaired, valuing the impairment amount of specific loans whose collectability has been called into question. The amount assigned to this aspect of the ALLL is the individually-determined (i.e., loan-by-loan) portion thereof. The standard requires the use of one of three approved

methods to estimate the amount to be reserved and/or charged off for such credits. The three methods are as follows:

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

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

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

If the loan is determined to be not impaired, it is then placed in the appropriate pool of Criticized & Classified loans to be evaluated for potential losses. Loans determined to be impaired are then evaluated to determine the measure of impairment amount based on one of the three measurement methods noted above. If it is determined that there is an impairment amount, the Bank then determines whether the impairment amount is permanent (that is a confirmed loss), in which case the impairment is written down, 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 ASC 310, if there is no impairment amount, no reserve is established for the loan.

Troubled Debt Restructured Loans

Troubled debt restructured loans ("TDRs") are those loans whose terms have been modified because of deterioration in the financial condition of the borrower. Modifications could include extension of the terms of the loan, reduced interest rates, and forgiveness of accrued interest and/or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered a TDR until paid in full. For cash flow dependent loans the Company records an impairment charge equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the original loan's effective interest rate, and the original loan's carrying value. For a collateral dependent loan, the Company records an impairment when the current estimated fair value of the property that collateralizes the impaired loan, if any, is less than the recorded investment in the loan. TDR loans remain on non-accrual status until they have performed in accordance with the restructured terms for a period of at least 6 months. Carver adopted the ASU 2011-02 guidance with respect to troubled debt restructured loans. The adoption of this guidance did not have a material effect on the Company's consolidated statement of financial condition or results of operations.

We have reclassified certain prior period balances to conform to current year presentation.

NOTE 3. LOSS PER SHARE

The following table reconciles the loss available to common shareholders (numerator) and the weighted average common shares outstanding (denominator) for both basic and diluted loss per share for the following periods (in thousands, except for per share data):

	Three Months Ended December 31,		Nine Months Ended December 31	
	2011	2010	2011 [1]	2010
Loss per common share — basic				
Net loss	$(680)	$(8,188)	$(16,260)	$(34,041)
Less: Capital Purchase Program "CPP" Preferred Dividends [1]	—	82	288	588
Dividends paid and undistributed (losses)/earnings allocated to participating securities	—	(59)	—	(248)
Net Loss Available to Common Shareholders	$(680)	$(8,211)	$(16,548)	$(34,381)
Weighted average common shares outstanding [2]	2,621,340	165,619	984,348	165,557
Loss per common share	$(0.26)	$(49.58)	$(16.81)	$(207.67)
Diluted Loss per common share	N/A	N/A	N/A	N/A

[1] Includes $96 of accrued preferred dividends from the three month period ended March 31, 2011

(2) Common share count for all periods presented reflects a 1 for 15 reverse stock split which was effective on October 27, 2011

There was no diluted amount per share reported in either period due to the net losses incurred.

NOTE 4. ACCOUNTING FOR STOCK BASED COMPENSATION

All stock-based compensation is recognized as an expense measured at the fair value of the award on the grant date. The accounting guidance also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows in the consolidated statement of cash flows. Stock-based compensation expense recognized for the nine months ended December 31, 2011 and 2010 totaled $53,400 and $51,000 respectively.

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NOTE 5. BENEFIT PLANS

Carver Federal has a non-contributory defined benefit pension plan covering all employees who were participants prior to curtailment of the plan. The benefits are based on each employee’s term of service through the date of curtailment. The plan was curtailed during the fiscal year ended March 31, 2001.

NOTE 6. STOCK DIVIDENDS

As previously disclosed in a Form 8-K filed with the SEC on October 29, 2010, the Company’s Board of Directors announced that, based on highly uncertain economic conditions and the desire to preserve capital, Carver suspended payment of the quarterly cash dividend on its common stock. In accordance with the Orders, the Bank and Company are also prohibited from paying any dividends without prior regulatory approval, and, as such, suspended the regularly quarterly cash dividend payments on the Company's Series B preferred stock issued under the Trouble Asset Relief Program Capital Purchase Program ("TARP CPP") to the United States Department of Treasury ("Treasury"). There are no assurances that the payments of dividends on the common stock will resume.

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

On October 18, 2011 Carver received approval from the Federal Reserve Bank to pay all outstanding dividend payments (which included $192 thousand accrued during the six month period ended September 30, 2011) on the Company's Series B preferred stock issued under the TARP CPP.

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

NOTE 7. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank’s asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC subtopic 320-942 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At December 31, 2011, the Bank had no securities classified as trading. At December 31, 2011, $55.7 million, or 82.9% of the Bank’s mortgage-backed and other investment securities, were classified as available-for-sale. The remaining $11.5 million or 17.1% were classified as held-to-maturity.

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-

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maturity at December 31, 2011 (in thousands):

	Amortized	Gross Unrealized		Estimated
	Cost	Gains	Losses	Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$26,469	$103	$(155)	$26,417
Federal Home Loan Mortgage Corporation	1,433	4	—	1,437
Federal National Mortgage Association	3,360	40	—	3,400
Other	51	—	—	51
Total mortgage-backed securities	31,313	147	(155)	31,305
U.S. Government Agency Securities	21,196	109	(8)	21,297
U.S. Government Securities	3,101	9	—	3,110
Total available-for-sale	55,610	265	(163)	55,712
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	6,908	458	—	7,366
Federal Home Loan Mortgage Corporation	2,907	150	—	3,057
Federal National Mortgage Association	1,694	87	—	1,781
Total held-to-maturity mortgage-backed securities	11,509	695	—	12,204
Total securities	$67,119	$960	$(163)	$67,916

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2011 (in thousands):

	Amortized	Gross Unrealized		Estimated
	Cost	Gains	Losses	Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$30,162	$150	$(115)	$30,197
Federal Home Loan Mortgage Corporation	1,864	—	(13)	1,851
Federal National Mortgage Association	4,286	—	(63)	4,223
Other	45	—	—	45
Total mortgage-backed securities	36,357	150	(191)	36,316
U.S. Government Agency Securities	14,968	—	(277)	14,691
U.S. Government Securities	2,547	—	(3)	2,544
Total available-for-sale	53,872	150	(471)	53,551
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	7,598	206	—	7,804
Federal Home Loan Mortgage Corporation	8,210	131	—	8,341
Federal National Mortgage Association	1,889	90	—	1,979
Total mortgage-backed securities	17,697	427	—	18,124
Other	—	—	—	—
Total held-to-maturity	17,697	427	—	18,124
Total securities	$71,569	$577	$(471)	$71,675

The following table sets forth the unrealized losses and fair value of securities at December 31, 2011 for less than

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12 months and 12 months or longer (in thousands):

	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	$(155)	$21,143	$—	$—	$(155)	$21,143
Agencies	(8)	5,992	—	—	(8)	5,992
Treasuries	—	301			—	301
Total available-for-sale	(163)	27,436	—	—	(163)	27,436
Held-to-Maturity:						
Mortgage-backed securities	—	—	—	—	—	—
Total held-to-maturity	—	—	—	—	—	—
Total securities	$(163)	$27,436	$—	$—	$(163)	$27,436

The following table sets forth the unrealized losses and fair value of securities at March 31, 2011 for less than 12 months and 12 months or longer (in thousands):

	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	$(191)	$11,534	$—	$—	$(191)	$11,534
Agencies	(280)	17,235	—	—	(280)	17,235
Total available-for-sale	(471)	28,769	—	—	(471)	28,769
Held-to-Maturity:						
Mortgage-backed securities	—	345	—	—	—	345
Total held-to-maturity	—	345	—	—	—	345
Total securities	$(471)	$29,114	$—	$—	$(471)	$29,114

A total of eight available for sale securities had an unrealized loss at December 31, 2011 compared to sixteen at March 31, 2011, based on estimated fair value. There were no securities in the held to maturity portfolio that had an unrealized loss at December 31, 2011 compared to one security at March 31, 2011. The majority of the securities in an unrealized loss position were mortgage backed securities and agency securities, which represented 78% and 22% of total securities which had an unrealized loss at December 31, 2011, respectively.

The cause of the temporary impairment is directly related to changes in interest rates. In general, as interest rates decline, the fair value of securities will rise, and conversely as interest rates rise, the fair value of securities will decline. Management considers fluctuations in fair value as a result of interest rate changes to be temporary, which is consistent with the Bank's experience. For securities that are not deemed to be credit impaired, management assesses whether it intends to sell or whether it is more-likely-than-not that it would be required to sell the investment before the expected recovery of the amortized cost basis. In most cases, management has asserted that it has no intent to sell and that it believes it is not likely to be required to sell the investment before recovery of its amortized cost basis. Where such an assertion has not been made, the security's decline in fair value is deemed to be other than temporary and is recorded in earnings. At December 31, 2011, the Bank did not have any securities that would be classified as having other than temporary impairment in its investment portfolio.

The following is a summary of the carrying value (amortized cost) and fair value of securities at December 31, 2011, 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.

	Amortized Cost	Fair Value	Weighted Avg Rate	
Available-for-Sale:				
Less than one year	$1,250	$1,251	0.21	%
One through five years	16,045	16,145	1.09	%
Five through ten years	9,215	9,252	1.61	%
After ten years	29,100	29,064	1.98	%
Total	55,610	55,712	1.62	%
Held-to-maturity:				
Five through ten years	244	255	4.20	%
After ten years	11,264	11,948	4.24	%
Total	$11,508	$12,203	4.24	%

NOTE 8. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The loans receivable portfolio is segmented into One-to-Four Family, Multifamily Mortgage, Commercial Real-Estate, Construction, Business, Small Business Administration & Consumer and Other Loans.

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

The General Allowance for Pass rated loans and Criticized and Classified loans is determined in accordance with ASC Topic 450 whereby management evaluates the risk of loss potential of pools of loans which are segmented by loan type and then by risk rating. The loan types include; i) One-to-Four family mortgages, ii) Multifamily, iii) Commercial Real Estate, iv) Construction, v) Business, vi) Small Business Administration, and vii) Consumer and other loans.

To determine the balance of the ALLL, management evaluates the risk of potential loss to these pools of pass rated or criticized and classified loans, which are risk rated special mention, substandard or doubtful. This analysis is based upon a review of 10 different factors that are then applied to the pools of loans. The first factor utilized is actual historical loss experience by loan type expressed as a percentage of the average outstanding of all loans within the loan type over the prior four quarters. Because actual loss experience alone may not adequately predict the level of losses inherent in a portfolio, management also reviews nine qualitative factors to determine if reserves should be adjusted based upon any of those factors. These nine factors are reviewed and analyzed for each loan type and each risk rating. The lower the credit quality, the greater the risk for potential loss.

The Specific Allowance for Classified loans is determined in accordance with ASC Topic 310 which is the primary basis for individually determining if a loan is impaired, and if impaired, valuing the impairment amount of specific loans whose collectability is questionable. The standard requires the use of one of the following three approved methods to estimate the amount to be reserved and/or charged off: i) the present value of expected future cash flow discounted at the loan’s effective interest rate, ii) the loan’s observable market price, or iii) the fair value of the collateral if the loan is collateral dependent.

Classified loans with at risk balances of $500,000 or more are identified and reviewed for individual evaluation for impairment. Carver also performs an impairment analysis on all troubled debt restructurings (“TDRs”). If it is determined that it is probable the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, the loan is impaired. If the loan is determined not to be impaired, it is then placed in the appropriate pool of Classified loans to be evaluated for potential losses. The impaired loans are then evaluated to determine the measure of impairment amount based on one of the three measurement methods noted above. If it is determined that there is an impairment amount, the Bank then determines whether

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the impairment amount is permanent, in which case the loan balance is written down, or if it is other than permanent, the Bank establishes a specific valuation reserve that is included in the total ALLL. Also, in accordance with ASC310, if there is no impairment amount, no reserve is established for the loan.

From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts or release balances from the ALLL. The ALLL is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends. Individual loan risk ratings are evaluated based on the specific facts related to that loan. Additions to the ALLL are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the ALLL, while recoveries of previously charged off amounts are credited to the ALLL.

The following is a summary of loans receivable, net of allowance for loan losses, at December 31, 2011 and March 31, 2011 (dollars in thousands).

	December 31, 2011		March 31, 2011	
	Amount	Percent	Amount	Percent
Gross loans receivable:				
One- to four-family	$74,693	16.23 %	$82,061	14.09 %
Multifamily	95,706	20.79 %	123,791	21.25 %
Commercial real estate	218,688	47.51 %	243,786	41.84 %
Construction	23,394	5.08 %	78,055	13.40 %
Business	46,525	10.11 %	53,561	9.19 %
Consumer and other [1]	1,252	0.28 %	1,349	0.23 %
Total loans receivable	460,258	100.00 %	582,603	100.00 %
Add:				
Premium on loans	102		120	
Less:				
Deferred fees and loan discounts	(2,183)		(2,420)	
Allowance for loan losses	(20,411)		(23,147)	
Total loans receivable, net	$437,766		$557,156	

(1) Includes personal, credit card, and home improvement.

(2) Substantially all of the Bank’s real estate loans receivable are principally secured by properties located in New York City. Accordingly, as with most financial institutions in the market area, the ultimate collectability of a substantial portion of the Company’s loan portfolio is susceptible to changes in market conditions in this area.

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The following is an analysis of the allowance for loan losses and loans receivable as of and for the nine month period ended December 31, 2011 (in thousands).

	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$2,923	$ 6,223	$3,999	$6,944	$2,965	$93	$—	$23,147
Charge-offs:	857	5,588	4,285	5,692	398	8	—	16,828
Recoveries:	—	6	2	1,685	109	—	—	1,802
Provision for Loan Losses	1,143	7,047	6,089	(800)	(1,203)	14	—	12,290
Ending Balance	$3,209	$ 7,688	$5,805	$2,137	$1,473	$99	$—	$20,411
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	2,719	7,593	5,227	2,059	1,351	99	—	19,048
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	490	95	578	78	122	—	—	1,363
Loan Receivables Ending Balance:	$74,646	$ 95,617	$217,228	$23,356	$46,042	$1,288	—	$458,177
Ending Balance: collectively evaluated for impairment	65,460	93,454	192,584	18,444	39,183	1,288	—	410,413
Ending Balance: individually evaluated for impairment	9,186	2,163	24,644	4,912	6,859	—	—	47,764

The following is an analysis of the allowance for loan losses as of and for the nine month period ended December 31, 2010 (in thousands).

	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Unallocated	Total
Allowance for loan losses:								

Beginning Balance	$1,035	$ 1,566	$2,613	$3,831	$2,069	$60	$826	$12,000
Charge-offs:	136	2,796	599	4,975	2,515	8	—	11,029
Recoveries:	—	—	1	—	15	17	—	33
Provision for Loan Losses	2,031	6,289	2,496	7,196	3,108	24	(826)	20,318
Ending Balance	$2,930	$ 5,059	$4,511	$6,052	$2,677	$93	—	$21,322

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The following is an analysis of the loan receivables as of March 31, 2011 (in thousands).

	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Total
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	$2,316	$ 5,510	$3,840	$4,379	$2,832	$93	$18,970
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	607	713	159	2,565	133	—	4,177
Loan Receivables Ending Balance :	81,988	123,571	242,317	78,017	53,060	1,350	580,303
Ending Balance: collectively evaluated for impairment	70,679	116,064	233,697	41,454	46,789	1,350	510,033
Ending Balance: individually evaluated for impairment	11,309	7,507	8,620	36,563	6,271	—	70,270

The following is a summary of non-performing loans at December 31, and March 31, 2011 (in thousands).

	December 31, 2011	March 31, 2011
Loans accounted for on a non-accrual basis:		
Gross loans receivable:		
One-to-four family	$12,863	$15,993
Multifamily	2,619	6,786
Commercial real estate	26,313	10,078
Construction	17,651	37,218
Business	9,825	7,289
Consumer	4	42
Total non-accrual loans	$69,275	$77,406

Non-performing loans decreased to $69.3 million at December 31, 2011 from $77.4 million at March 31, 2011. During the current nine month period 39 non-performing loans with a fair value of $47.8 million were moved to held for sale. Sales of held for sale loans during the nine month period ended December 31, 2011 totaled $26.1 million Non-performing loans at December 31, 2011, were comprised of $47.8 million of loans 90 days or more past due and non-accruing, $2.6 million of loans that are either performing or less than 90 days past due and have been deemed to be impaired and $18.9 million of loans classified as a troubled debt restructuring and either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months.

Non-performing loans at March 31, 2011, were comprised of $48.8 million of loans 90 days or more past due and non-accruing, $4.9 million of loans that are either performing or less than 90 days past due and have been deemed to be impaired and $23.8 million of loans classified as a troubled debt restructuring and either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months.

At December 31, 2011, other non-performing assets totaled $2.2 million which consists of other real estate owned. Other real estate owned of $2.2 million reflects two foreclosed properties.

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The Bank utilizes an internal loan classification system as a means of reporting problem loans within its loans 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 and loans past maturity. All other One-to-Four Family Residential Loans and Consumer and Other Loans are performing loans.

As of December 31, 2011, and based on the most recent analysis performed in the current quarter, the risk category by class of loans is as follows (in thousands):

	Multi-Family Mortgage	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$89,380	$168,630	$1,818	$29,190
Special Mention	2,227	18,271	5,092	5,133
Substandard	4,010	30,328	16,446	11,204
Doubtful	—	—	—	514
Loss	—	—	—	—
Total	$95,617	$217,229	$23,356	$46,041

	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$61,783	$1,284
Non-Performing	12,863	4
Total	$74,646	$1,288

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As of March 31, 2011, and based on the most recent analysis performed, the risk category by class of loans is as follows (in thousands):

	Multi-Family Mortgage	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$110,837	$199,581	$—	$39,017
Special Mention	2,126	8,726	25,105	3,857
Substandard [1]	10,608	33,719	52,912	10,058
Doubtful	—	291	—	128
Loss	—	—	—	——
Total	$123,571	$242,317	$78,017	$53,060

[1]Presentation of March 31, 2011 table revised to include Impaired loans for comparative purposes

	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$65,995	$1,308
Non-Performing	15,993	42
Total	$81,988	$1,350

The following table presents an aging analysis of the recorded investment of past due financing receivable as of December 31, 2011 (in thousands).

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Impaired [1]	TDR [2]	Current [3], [4]	Total Financing Receivables
One-to-four family residential	$2,126	$399	$5,468	$7,993	$—	$7,395	$59,305	$74,693
Multi-family mortgage	2,868	1,472	1,545	5,885	—	1,074	88,747	95,706
Commercial real estate	8,639	537	17,762	26,938	2,483	6,068	183,199	218,688
Construction	—	—	17,651	17,651	—	—	5,743	23,394
Business	1,744	—	5,337	7,081	91	4,397	34,956	46,525
Consumer and other	34	4	4	42	—		1,210	1,252
Total	$15,411	$2,412	$47,767	$65,590	$2,574	$18,934	$373,160	$460,258

(1) Consists of loans which are less than 90 days past due but impaired due to other risk characteristics.

(2) $18.9 million have not performed in accordance with their modified terms for more than six months and are considered non performing.

(3) Includes $3.1 million TDR loans that have performed in accordance with their modified terms for at least six months and is considered performing.

(4) There were no loans that are 90 days or more past due as to interest and principal and still accruing at December 31, 2011.

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The following table presents an aging analysis of the recorded investment of past due financing receivable as of March 31, 2011. Also included are loans that are 90 days or more past due as to interest and principal and still accruing because they are well-secured and in the process of collection (in thousands).

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Impaired [1]	TDR [2]	Current [3], [4], [5]	Total Financing Receivables
One-to-four family residential	$4,852	$601	$4,859	$10,312	$—	$11,134	60,615	82,061
Multi-family mortgage	6,866	—	5,452	12,318	1,135	200	110,138	123,791
Commercial real estate	12,360	5,457	3,095	20,912	442	6,541	215,891	243,786
Construction	19,509	—	32,158	51,667	923	4,137	21,328	78,055
Business	7,981	117	3,175	11,273	2,362	1,752	38,174	53,561
Consumer and other	15	37	42	94	—	—	1,255	1,349
Total	$51,583	$6,212	$48,781	$106,576	$4,862	$23,764	$447,401	$582,603

(1) Consists of loans which are less than 90 days past due but impaired due to other risk characteristics.
(2) $23.7 million have not performed in accordance with their modified terms for more than six months and are considered non performing. Currently they are represented in the following TDR categories:
$17.4 million loans are non accrual as they are not performing in accordance with their modified terms
$5.8 million are 30-59 days past due.
$0.5 million loans are 60-89 days past due.
(3) Includes $0.4 million TDR loan that has performed in accordance with its modified terms for at least six months and is considered performing.
(4) There were no loans that are 90 days or more past due as to interest and principal and still accruing at March 31, 2011.
(5) Presentation of March 31, 2011 table revised to reflect loan principal amounts, gross of deferred fees for comparative purposes.

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The following table presents the recorded investment and unpaid principal balances for impaired loans and TDR loans ($18.6 million) with the associated allowance amount, if applicable. Management determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Impaired Loans by Class
As of and for the nine month period ended December 31, 2011
(In thousands)

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Balance	Interest income recognized
With no specific allowance recorded:					
One-to-four family residential	$2,180	$2,680	$—	$2,176	$39
Multi-family mortgage	195	195	—	196	18
Commercial real estate	8,446	9,324	—	6,202	4
Construction	3,799	4,727	—	10,139	804
Business	5,500	5,934	—	4,942	156
Consumer and other	—	—	—	—	—
Total	$20,120	$22,860	$—	$23,655	$1,021
With an allowance recorded:					
One-to-four family residential	$7,006	$9,372	$490	$7,171	$91
Multi-family mortgage	1,968	2,032	95	4,427	70
Commercial real estate	16,437	17,435	578	12,118	231
Construction	1,112	1,544	78	2,606	—
Business	1,582	2,002	122	1,592	106
Consumer and other	—	—			
Total	$28,105	$32,385	$1,363	$27,914	$498
One-to-four family residential	$9,186	$12,052	$490	$9,347	$130
Multi-family mortgage	2,163	2,227	95	4,623	88
Commercial real estate	24,883	26,759	578	18,320	235
Construction	4,911	6,271	78	12,745	804
Business	7,082	7,936	122	6,534	262
Consumer and other	—	—	—	—	—
Total	$48,225	$55,245	$1,363	$51,569	$1,519

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Impaired Loans by Class
As of March 31, 2011
(In thousands)

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:			
One-to-four family residential	$3,752	$3,869	—
Multi-family mortgage	814	844	—
Commercial real estate	5,266	5,266	—
Construction	12,567	14,602	—
Business	4,651	4,651	—
Consumer and other	—	—	—
Total	$27,050	$29,232	—
With an allowance recorded:			
One-to-four family residential	$7,557	$8,209	$607
Multi-family mortgage	6,693	7,108	713
Commercial real estate	3,354	3,800	159
Construction	23,996	27,486	2,565
Business	1,620	1,830	133
Consumer and other	—	—	
Total	$43,220	$48,433	$4,177
One-to-four family residential	$11,309	$12,078	$607
Multi-family mortgage	7,507	7,922	713
Commercial real estate	8,620	9,066	159
Construction	36,563	42,088	2,565
Business	6,271	6,481	133
Consumer and other	—	—	
Total	$70,270	$77,635	$4,177

In certain circumstances, loan modifications involve a troubled borrower to whom the Bank may grant a modification. Situations around modifications involving troubled borrowers may include extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, reduction in the face amount of the debt or reduction of past accrued interest. In cases where the Bank grants any such concession to a troubled borrower, the Bank accounts for the modification as a TDR under ASC 310-40 and the related allowance under ASC 310-10-35. Loans modified in TDRs are placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months.

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The following table presents an analysis of those loan modifications that were classified as non performing TDRs during the three and nine month periods ended December 31, 2011 (in thousands)

	Modifications to loans during the three month period ended December, 2011			Modifications to loans during the nine month period ended December 31, 2011		
	Number of loans	Pre-modification outstanding recorded investment	Recorded investment at December 31, 2011	Number of loans	Pre- modification outstanding recorded investment	Recorded investment at December 31, 2011
One-to-four family residential	1	$663	$663	2	$2,513	$2,513
Multi-family mortgage	1	879	830	1	879	830
Commercial real estate	3	3,879	3,879	3	3,879	3,879
Business	1	342	342	3	2,647	2,524
Total	6	$5,763	$5,714	9	$9,918	$9,746

In an effort to proactively manage delinquent loans, Carver has selectively extended to certain borrowers concessions such as rate reductions or forbearance agreements. For the nine month period ended December 31, 2011, loan on which concessions were made with respect to rate reductions were $3.3 million and those loans which reached forbearance agreements totaled $6.3 million.
For the nine month period ended December 31, 2011, Carver did not have any loans that had been modified and subsequently defaulted.
TDR's are factored into the determination of the allowance for loan losses. The Company has allocated approximately $44 thousand of the loan loss allowance at December 31, 2011 for those TDRs modified within the last nine months.

NOTE 9. INCOME TAXES
The components of income tax expense for the nine months ended December 31, 2011 are as follows (in thousands):

	December 31, 2011
Federal income tax expense (benefit):	
Current	$(1,121)
Deferred	(4,512)
Valuation Allowance	4,597
	(1,036)
State and local income tax expense (benefit):	
Current	109
Deferred	(1,198)
Valuation Allowance	1,198
	109
Total income tax benefit:	$(927)

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The following is a reconciliation of the expected Federal income tax rate to the consolidated effective tax rate for the nine months ended December 31, 2011 (dollars in thousands):

	December 31, 2011	
	Amount	Percent
Statutory Federal income tax	$(5,610)	34.0 %
State and local income taxes, net of Federal tax benefit	(1,180)	7.2 %
General business credit	(24)	0.1 %
Valuation allowance	5,794	(35.1)%
Other	93	(0.6)%
Total income tax benefit	$(927)	5.6 %

On June 29, 2011, the Company raised $55 million of equity. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carry forwards, general business credits, and recognized built-in losses upon a change in ownership. The Company expects to be subject to an annual limitation of approximately $0.9 million. The company has a net deferred tax asset ("DTA") of approximately $24.6 million. A full valuation allowance for the DTA has been recorded. Due to the Section 382 limitation, some portion of the DTA may not be recoverable and the company has not yet determined the potential tax attributes that may be subject to limitation under 382.

At March 31, 2011, the Company had net operating carryovers for state purposes of approximately $5.3 million which are available to offset future state income and which expire over varying periods from March 2028 through March 2029.

The Company has no uncertain tax positions. The Company and its subsidiaries are subject to U.S. Federal, New York State and New York City income taxation. The Company is no longer subject to examination by taxing authorities for years before March 31, 2006. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

NOTE 10. FAIR VALUE MEASUREMENTS

ASC 820 clarifies that fair value is an “exit” price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1— Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2— Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3— Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument’s categorization within this valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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The following table presents, by valuation hierarchy, assets that are measured at fair value on a recurring basis as of December 31, 2011 and March 31, 2011, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

	Fair Value Measurements at December 31, 2011, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Mortgage servicing rights	$—	$—	$509	$509
Investment securities:				
Available for sale:				
U.S. Treasuries	3,110			3,110
Government National Mortgage Association		26,417	—	26,417
Federal Home Loan Mortgage Corporation		1,437	—	1,437
Federal National Mortgage Association		3,400	—	3,400
Other		21,297	51	21,348
Total available for sale securities	$3,110	$52,551	$51	$55,712
Total assets	$3,110	$52,551	$560	$56,221

	Fair Value Measurements at March 31, 2011, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Mortgage servicing rights	$—	$—	$626	$626
Investment securities:				
Available for sale:				
U.S. Treasuries	2,544			2,544
Government National Mortgage Association		30,197		30,197
Federal Home Loan Mortgage Corporation	—	1,851	—	1,851
Federal National Mortgage Association	—	4,223		4,223
Other	—	14,691	45	14,736
Total available for sale securities	$2,544	$50,962	$45	$53,551
Total assets	$2,544	$50,962	$671	$54,177

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights. Level 3 assets accounted for 0.1% of the Company's total assets at December 31, 2011 and March 31, 2011.

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.

A description of the methods and significant assumptions utilized in estimating the fair value of available-for-sale securities and mortgage servicing rights (“MSR”) follows:

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Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and exchange-traded securities.
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 current period ended December 31, 2011, there were no transfers of investments between the Level 1 and Level 2 categories.
In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. In valuing certain securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. Quoted price information for the MSRs is not available. Therefore, MSRs are valued using market-standard models to model the specific cash flow structure. Key inputs to the model consist of principal balance of loans being serviced, servicing fees and prepayment rates.
The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.
The following table presents information for assets classified by the Company within Level 3 of the valuation hierarchy for the nine months ended December 31, 2011 and 2010:

(in thousands)	Mortgage Servicing Rights	Securities Available for Sale
Beginning balance, April 1, 2011	$626	$45
Additions	—	6
Unrealized loss	(117)	—
Ending balance, December 31, 2011	$509	$51

(in thousands)	Mortgage Servicing Rights	Securities Available for Sale
Beginning April 1, 2010	$721	$141
Sales	—	(96)
Unrealized loss	(28)	—
Ending balance, December 31, 2010	$693	$45

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 December 31, 2011 and March 31, 2011 and that are included in the Company’s Consolidated Statements of Financial Condition as these dates:

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	Fair Value Measurements at December 31, 2011, Using			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Loans held-for-sale	$—	$22,490	$—	$22,490
Impaired loans with a specific reserve allocated	$—	$26,742	$—	$26,742

	Fair Value Measurements at March 31, 2011, Using			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Loans held-for-sale	$—	$9,205	$—	$9,205
Impaired loans with a specific reserve allocated	$—	$38,962	$—	$38,962

Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held for sale for the period ended December 31, 2011 was based upon significant observable inputs such as offered purchase prices, broker price opinions or discounted cash flows.

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

NOTE 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

According to current GAAP, 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 estimated fair values and carrying values of the Bank’s financial instruments and estimation methodologies are set forth below:

The carrying amounts and estimated fair values of the Bank’s financial instruments at December 31, 2011 and March 31, 2011 are as follows (in thousands):

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	December 31, 2011		March 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$106,675	$106,675	$44,077	$44,077
Restricted cash	6,415	6,415	—	—
Securities available-for-sale	55,712	55,712	53,551	53,551
FHLB Stock	3,969	3,969	3,353	3,353
Securities held-to-maturity	11,509	12,204	17,697	18,124
Loans receivable	437,766	444,420	557,156	572,059
Loans held-for-sale	22,490	22,490	9,205	9,205
Accrued interest receivable	2,354	2,354	2,854	2,854
Mortgage servicing rights	509	509	626	626
Financial Liabilities:				
Deposits	$485,195	$472,514	$560,698	$536,046
Advances from FHLB of New York	65,039	66,015	50,057	50,372
Repurchase agreement	30,000	30,002	30,000	29,970
Other borrowed money	18,403	18,883	32,471	30,895

Cash and cash equivalents and accrued interest receivable

The carrying amounts for cash and cash equivalents and accrued interest receivable approximate fair value because they mature in three months or less.

Restricted cash

The carrying amounts for restricted cash approximates fair value 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.

FHLB Stock

The fair value of FHLB stock approximates the carrying amount, which is at cost.

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 held-for-sale

Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held for sale are based upon offered purchase prices, appraisals, broker price opinions or discounted cash flows.

Mortgage servicing rights

The fair value of mortgage servicing rights is determined by discounting the present value of estimated future servicing

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cash flows using current market assumptions for prepayments, servicing costs and other factors.

Deposits

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

Advances from FHLB-NY and Other borrowed money

The fair values of advances from the Federal Home Loan Bank of New York and other borrowed money are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities.

Repurchase agreements

The fair values of advances from Repurchase agreements are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities.

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

The fair value of the commitments to extend credit was estimated to be insignificant as of December 31, 2011 and March 31, 2011. 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.

Limitations

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

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

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

NOTE 12. VARIABLE INTEREST ENTITIES

The Company's subsidiary, Carver Statutory Trust I, is not consolidated with Carver Bancorp Inc. for financial reporting purposes. Carver Statutory Trust I was formed in 2003 for the purpose of issuing $13.0 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 (“Capital Securities”) and $0.4 million of common securities (which are the only voting securities of Carver Statutory Trust I), which are 100% owned by Carver Bancorp Inc., and using the proceeds to acquire Junior Subordinated Debentures issued by Carver Bancorp Inc. Carver Bancorp Inc. has fully and unconditionally guaranteed the Capital Securities along with all obligations of Carver Statutory Trust I under the trust agreement relating to the Capital Securities.

The Bank's subsidiary, Carver Community Development Corporation (“CCDC”), was formed to facilitate its participation in local economic development and other community-based activities. Per the NMTC Award's

Allocation Agreement between the CDFI Fund and CCDC, CCDC is permitted to form and sub-allocate credits to subsidiary Community Development Entities (“CDEs”) to facilitate investments in separate development projects.

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The VIEs are consolidated, as required, where Carver has controlling financial interest in these entities and is deemed to be the primary beneficiary. Carver is normally deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:
(a) the power to direct activities of a VIE that most significantly impact the entities economic performance; and
(b) the obligation to absorb losses of the entity that could benefit from the entities that could potentially be significant to the VIE.
The Bank's involvement with VIEs, consolidated and unconsolidated, in which the company holds significant variable interests or has continuing involvement through servicing a majority of assets in a VIE is presented below:

	Involvement with SPE (000's)					Funded Exposure		Unfunded Exposure		Total
	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments	Funding Commitments	Maximum exposure to loss	
Carver Statutory Trust 1	$—	$—	$ —	$ 13,400	$ 13,400	$13,000	$400	$—	$—	$13,400
CDE 1-9, CDE 11-12	—	40,000	34,244	—	34,244	—	6,701	—	7,800	14,501
CDE 10	1,700	19,000	—	16,674	16,674	—	—	—	7,400	7,400
CDE 13	500	10,500	—	10,593	10,593	—	1	—	4,100	4,101
CDE 14	400	10,000	—	10,004	10,004	—	1	—	3,900	3,901
CDE 15, CDE 16, CDE 17	500	20,500	—	20,913	20,913	—	2	—	8,000	8,002
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,200	5,201
CDE 19	500	10,746	—	10,809	10,809	—	1	—	4,200	4,201
Total	$4,200	$124,000	$ 34,244	$ 95,675	$ 129,919	$13,000	$7,108	$—	$40,600	$60,708

The Bank was originally awarded $59.0 million of NMTC. In fiscal 2008, the Bank transferred $19.0 million of rights to an investor in a NMTC project. The entity was called CDE-10.
With respect to the remaining $40 million of the original NMTC award, the Bank has established various special purpose entities (CDE's 1-9,11-12) through which its investments in NMTC eligible activities are conducted. As the Bank is exposed to all of the expected losses and residual returns from these investments, under ASC topic 810 the Bank has determined it has a controlling financial interest and is the primary beneficiary of these entities. During December 2010 Carver transferred its equity ownership in the CDEs and the associated rights to an investor in exchange for $6.7 million in cash.
As a result of Carver financing the purchase note, the CDEs continue to be consolidated and the investor's equity investment of $6.7 million was reflected as non-controlling interest in the Statement of Financial Condition. The sale of the equity interest in the CDEs provides the investor with rights to the new market tax credit on a prospective basis. A portion of non-controlling interest is transferred to the controlling interest as the investor earns the tax credits. Under the current arrangement, the Bank has a contingent obligation to reimburse the investor for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the

investor's ability to otherwise utilize tax credits stemming from the award.
In May 2009, the Bank received a second NMTC award in the amount of $65 million. During the period from December 2009 to June 2010, the Bank transferred rights to investors in NMTC projects (entities CDE 13-19). The Bank has a contingent obligation to reimburse the investor for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the investor's ability to otherwise utilize tax credits stemming from the award.

In August 2011, the Bank received a third NMTC award in the amount of $25 million. The Bank has established various special purpose entities (CDE's 20-25) through which its investments in NMTC eligible activities will be conducted. These

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entities have been reviewed for possible consolidation under the accounting guidance related to variable interest entities and are not consolidated for financial statement reporting purposes as Carver does not have the power to direct the activities that most significantly impact the economic performance. As of December 31, 2011, no investments have been made related to this allocation.

NOTE 13. IMPACT OF ACCOUNTING STANDARDS AND INTERPRETATIONS

In April 2011, the FASB issued a revision to earlier guidance for accounting for troubled debt restructurings (ASU 2011-02). The ASU clarifies the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties, such as:

- Creditors cannot assume that debt extensions at or above a borrower's original contractual rate do not constitute troubled debt restructurings.
- If a borrower doesn't have access to funds at a market rate for debt with characteristics similar to the restructured debt, that may indicate that the creditor has granted a concession.
- A borrower that is not currently in default may still be considered to be experiencing financial difficulty when payment default is considered probable in the foreseeable future.

The guidance became effective on June 15, 2011 and has been applied retrospectively to restructurings occurring on or after April 1, 2011. The adoption of this guidance did not have a material effect on the Company's consolidated statement of financial condition or results of operations.

In July 2010, the FASB issued guidance related to disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, ASU No. 2010-20, Receivables (Topic 310) which requires significant new disclosures about the credit quality of financing receivables and the allowance for credit losses. The objective of these disclosures is to improve financial statement users' understanding of (i) the nature of an entity's credit risk associated with its financing receivables and (ii) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. The required disclosures include, among other things, a roll forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU No. 2010-20 disclosures related to period-end information (e.g., credit-quality information and the ending financing receivables balance segregated by impairment method) were required in all interim and annual reporting periods ending on or after December 15, 2010. Disclosures of activity that occurs during a reporting period (e.g., modifications and the roll forward of the allowance for credit losses by portfolio segment) were required in interim or annual periods beginning on or after December 15, 2010. The required disclosures for the period have been included in footnote 8 to the financial statements.

Accounting Standard Update (“ASU”) No. 2010-06 under ASC Topic 820, “Fair Value Measurements and Disclosures,” requires new disclosures and clarifies certain existing disclosure requirements about fair value measurement. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using Level 3 inputs. In addition, the update clarifies the following requirements of the existing disclosures: (i) for the purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and

nonrecurring fair value measurements. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy were adopted by the Company on January 1, 2011. The remaining disclosure requirements and clarifications made by ASU No. 2010-06 became effective for the Company on April 1, 2010. In May 2011, the FASB issued guidance which results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. This guidance is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance is not expected to have a material effect on the Company's consolidated statement of condition or results of operations.

In April 2011, the FASB issued guidance to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments to this guidance remove from the assessment of effective control: (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by this new guidance. Those criteria indicate that the transferor is deemed to

have maintained effective control over the financial assets transferred (and thus must account for the transaction as a secured borrowing) for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all of the following conditions are met: (1) the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (2) the agreement is to repurchase or redeem them before maturity, at a fixed or determinable price; and (3) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of this guidance is not expected to have a material effect on the Company's consolidated statement of condition or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments in ASU 2011-04 generally represent clarifications of Topic 820 (Fair Value), but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. ASU 2011-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The amendments in ASU 2011-04 are to be applied prospectively and are effective during annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of ASU 2011-04 is not expected to have a material effect on the Company's consolidated balance sheets or statements of operations.

In June 2011, the Financial Accounting Standards Board (“FASB”) issued guidance regarding the presentation of comprehensive income. Under this guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. It does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. The Company is currently evaluating the potential impact of adopting the ASU. In December 2011, the Financial Accounting Standards Board (“FASB”) issued an update (ASU 2011-12) to guidance regarding the presentation of comprehensive income. Under this guidance, an entity can defer the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. The deferral is temporary until the Board reconsiders the operational concerns and needs of financial statement users. The Board has not yet established a timetable for its reconsideration.

NOTE 14. SUBSEQUENTS EVENTS

In accordance with ASC Topic 855, the Company has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and notes thereto have taken place through the date these financial statements were issued. The Company has determined that there are no such subsequent events to report.

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

Forward-Looking Statements

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

- the ability to continue to comply with the Orders and the effects of the restrictions upon operations set forth in the orders;
- general economic conditions, either nationally or locally in some or all areas in which business is conducted, or conditions in the real estate or securities markets or the banking industry which could affect liquidity in the capital markets, the volume of loan origination, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses;
- changes in existing loan portfolio composition and credit quality, and changes in loan loss requirements;
- legislative or regulatory changes which may adversely affect the Company's business, including but not limited to the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- Restrictions on our ability to raise additional capital set forth in the terms of the Series D preferred stock and in the exchange agreement with the U.S. Treasury
- the Company's success in implementing its new business initiatives, including expanding its product line, adding new branches and ATM centers and successfully building its brand image;
- changes in interest rates which may reduce net interest margin and net interest income;
- increases in competitive pressure among financial institutions or non-financial institutions;
- technological changes which may be more difficult to implement or expensive than anticipated;
- changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities which may adversely affect the business;
- changes in accounting principles, policies or guidelines which may cause conditions to be perceived differently;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, which may delay the occurrence or non-occurrence of events longer than anticipated;
- the ability to originate and purchase loans with attractive terms and acceptable credit quality;
- the ability to attract and retain key members of management
- the ability to realize cost efficiencies;
- the ability to utilize NMTC.

Any or all of the Company's forward-looking statements in this Quarterly Report on Form 10-Q and in any other public statements that the Company or management makes may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date of this Quarterly Report on Form 10-Q, and the Company assumes no obligation to, and expressly disclaims any obligation to, update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements, except as legally required. For a discussion of additional factors that could adversely affect the Company's future performance, see "(Part I. Financial Information) Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and "(Part II. Other information) Item 1A — Risk Factors.

Overview

Carver Bancorp, Inc., a Delaware corporation (the "Holding Company", or "Registrant") is the holding company for Carver Federal Savings Bank ("Carver Federal" or the "Bank"), a federally chartered savings bank, and, on a parent-only

basis,

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had minimal results of operations. The Holding Company is headquartered in New York, New York. The Holding Company conducts business as a unitary savings and loan holding company, and the principal business of the Holding Company consists of the operation of its wholly-owned subsidiary, Carver Federal. Carver Federal was founded in 1948 to serve African-American communities whose residents, businesses and institutions had limited access to mainstream financial services. The Bank remains headquartered in Harlem, and predominantly all its nine branches and eight stand-alone 24/7 ATM Centers are located in low- to moderate-income neighborhoods. Many of these historically underserved communities have experienced unprecedented growth and diversification of incomes, ethnicity and economic opportunity, after decades of public and private investment.
Carver Federal is the largest African-American operated bank in the United States. The Bank remains dedicated to expanding wealth enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank’s “Outstanding” rating, awarded by the OTS following its most recent Community Reinvestment Act (“CRA”) examination in 2009. The examination report noted that 76.1% of Carver’s community development lending and 55.4% of Carver’s Home-Owners Mortgage Disclosure Act (“HMDA”) reportable loan originations were within low- to moderate-income geographies, which far exceeded peer institutions. The Bank had approximately $671 million in assets as of December 31, 2011 and employed approximately 130 employees as of December 31, 2011.

Carver Federal engages in a wide range of consumer and commercial banking services. Carver Federal provides deposit products including demand, savings and time deposits for consumers, businesses, and governmental and quasi-governmental agencies in its local market area within New York City. In addition to deposit products, Carver Federal offers a number of other consumer and commercial banking products and services, including debit cards, online banking including online bill pay, and telephone banking.

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

The Bank's primary market area for deposits consists of the areas served by its 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 Bronx, Kings, New York 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 had 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 by qualified borrowers. 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 mortgage banking companies, commercial banks, and savings institutions. The Bank's most direct competition for deposits comes from commercial banks, savings institutions and credit unions. Competition for deposits also comes from money market mutual funds, corporate and government securities funds, and financial intermediaries such as brokerage firms and insurance companies. Many of the Bank's competitors have substantially greater resources and offer a wider array of financial services and products. This combined with competitors' larger presence in the New York market add to the challenges the Bank faces in expanding its current market share and growing its near-term profitability.

Carver Federal's more than 60 year history in its market area, its community involvement and relationships, targeted products and services and personal service consistent with community banking, help the Bank compete with other 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

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The NMTC award is used to stimulate economic development in low- to moderate-income communities. The NMTC award enables the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating the revitalization of the community, pursuant to the goals of the NMTC program. The NMTC award provides 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.

In June 2006, Carver Federal was selected by the U.S. Department of Treasury, in a highly competitive process, to receive its first award of $59 million in New Markets Tax Credits. Carver Federal invested a portion of its award in December 2006 and by December 2008 the Banks allocation was fully invested. In December 2010, the Bank divested its interest in the remaining $7.8 million NMTC tax credits that it would have received through the period ending March 31, 2014, by exchanging its equity interests in the special purpose entities holding the qualified investments for a cash payment of $6.7 million from a special purposes entity, controlled by an unrelated investor, set up to acquire these equity interests. CCDC continues to provide certain administrative services to the special purpose entity that acquired the equity interest. In addition, Carver still provides funding to the underlying projects.

In May 2009, the Bank received its second award of $65 million. During the period of December 2009 to June 2010, the Bank transferred rights to an investor in various NMTC projects. While providing funding to the investments in the NMTC projects, CCDC has retained a 0.01%interest in other entities created to facilitate the investment, with the investors owning the remaining 99.99%. CCDC also provides certain administrative services to these special purpose entities. The Bank has determined that it and CCDC do not have the sole power to direct activities of these special purpose entities that significantly impact their performance, therefore it is not the primary beneficiary of these entities.

In August 2011, the Bank received a third NMTC award in the amount of $25 million. The Bank has established various special purpose entities through which its investments in NMTC eligible activities will be conducted.

The Bank's VIEs, consolidated and unconsolidated, in which the company holds significant variable interests or has continuing involvement through servicing a majority of assets in a VIE is presented below:

Involvement with SPE (000's)						Funded Exposure		Unfunded Exposure		Total
	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments	Funding Commitments	Maximum exposure to loss	
Carver Statutory Trust 1	$ —	$—	$ —	$ 13,400	$ 13,400	$13,000	$ 400	$—	$—	$13,400
CDE 1-9, CDE 11-12	—	40,000	34,244	—	34,244	—	6,701	—	7,800	14,501
CDE 10	1,700	19,000	—	16,674	16,674	—	—	—		