CARVER BANCORP INC
Form 10-Q
August 22, 2016
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 June 30, 2016
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	13-3904174
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
75 West 125th Street, New York, New York	10027
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (718) 230-2900
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
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 þ Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 19, 2016
Common Stock, par value $0.01	3,696,087

TABLE OF CONTENTS

		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Statements of Financial Condition as of June 30, 2016 (unaudited) and March 31, 2016	1
	Consolidated Statements of Income for the Three Months Ended June 30, 2016 and 2015 (unaudited)	2
	Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended June 30, 2016 and 2015 (unaudited)	3
	Consolidated Statement of Changes in Equity for the Three Months Ended June 30, 2016 (unaudited)	4
	Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2016 and 2015 (unaudited)	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	41
Item 4.	Controls and Procedures	41
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	42
Item 1A.	Risk Factors	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3.	Defaults Upon Senior Securities	42
Item 4.	Mine Safety Disclosures	42
Item 5.	Other Information	42
Item 6.	Exhibits	42
SIGNATURES		44

Exhibit 11
Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2
Exhibit 101

PART I. FINANCIAL INFORMATION

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

$ in thousands except per share data	June 30, 2016 (unaudited)	March 31, 2016
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$45,771	$63,156
Money market investments	255	504
Total cash and cash equivalents	46,026	63,660
Restricted cash	225	225
Investment securities:		
Available-for-sale, at fair value	54,012	56,180
Held-to-maturity, at amortized cost (fair value of $15,442 and $15,653 at June 30, 2016 and March 31, 2016, respectively)	14,983	15,311
Total investment securities	68,995	71,491
Loans held-for-sale (“HFS”)	5,829	2,495
Loans receivable:		
Real estate mortgage loans	491,889	517,785
Commercial business loans	69,664	71,192
Consumer loans	125	42
Loans, net	561,678	589,019
Allowance for loan losses	(5,183)	(5,232)
Total loans receivable, net	556,495	583,787
Premises and equipment, net	5,774	5,983
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	2,216	2,883
Accrued interest receivable	4,310	3,647
Other assets	7,686	7,557
Total assets	$697,556	$741,728
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Savings	$95,630	$95,230
Non-interest bearing checking	54,698	56,634
Interest-bearing checking	33,887	33,106
Money market	143,959	163,380
Certificates of deposit	250,012	255,854
Escrow	1,757	2,537
Total deposits	579,943	606,741
Advances from the FHLB-NY and other borrowed money	49,403	68,403
Other liabilities	13,228	12,369
Total liabilities	642,574	687,513
EQUITY		
	45,118	45,118

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)		
Common stock (par value $0.01 per share: 10,000,000 shares authorized; 3,698,031 shares issued; 3,696,087 shares outstanding at June 30, 2016 and March 31, 2016, respectively)	61	61
Additional paid-in capital	55,470	55,470
Accumulated deficit	(45,302)	(45,710)
Treasury stock, at cost (1,944 shares at June 30, 2016 and March 31, 2016)	(417)	(417)
Accumulated other comprehensive income (loss)	52	(307)
Total equity	54,982	54,215
Total liabilities and equity	$ 697,556	$ 741,728

See accompanying notes to consolidated financial statements

1

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

	Three Months Ended June 30,	
$ in thousands, except per share data	2016	2015 Restated (1)
Interest income:		
Loans	$6,439	$ 5,642
Mortgage-backed securities	170	191
Investment securities	228	341
Money market investments	69	34
Total interest income	6,906	6,208
Interest expense:		
Deposits	935	776
Advances and other borrowed money	306	282
Total interest expense	1,241	1,058
Net interest income	5,665	5,150
Provision for (recovery of) loan losses	(204)	34
Net interest income after (recovery of) provision for loan losses	5,869	5,116
Non-interest income:		
Depository fees and charges	802	668
Loan fees and service charges	143	172
Gain on sale of loans, net	66	194
Gain on sale of real estate owned, net	—	18
Gain on sale of building, net	17	—
Other	135	141
Total non-interest income	1,163	1,193
Non-interest expense:		
Employee compensation and benefits	2,936	2,781
Net occupancy expense	744	996
Equipment, net	188	162
Data processing	328	224
Consulting fees	192	145
Federal deposit insurance premiums	166	122
Other	2,033	1,421
Total non-interest expense	6,587	5,851
Income before income taxes	445	458
Income tax expense	37	13
Net income	$408	$ 445
Earnings per common share:		
Basic	$0.04	$ 0.05

Diluted	0.04	0.05

[1] June 30, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

See accompanying notes to consolidated financial statements

2

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

$ in thousands	Three Months Ended June 30, 2016	2015 Restated [1]
Net income	$408	$445
Other comprehensive income (loss), net of tax:		
Change in unrealized gain (loss) of securities available-for-sale	359	(868)
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax	—	—
Total other comprehensive income (loss), net of tax	359	(868)
Total comprehensive income (loss), net of tax	$767	$(423)

[1] June 30, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

See accompanying notes to consolidated financial statements

3

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended June 30, 2016
(Unaudited)

$ in thousands	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance — March 31, 2016	$45,118	$ 61	$ 55,470	$ (45,710)	$ (417)	$ (307)	$54,215
Net income	—	—	—	408	—	—	408
Other comprehensive income, net of taxes	—	—	—	—	—	359	359
Balance — June 30, 2016	$45,118	$ 61	$ 55,470	$ (45,302)	$ (417)	$ 52	$54,982

See accompanying notes to consolidated financial statements

4

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

$ in thousands	Three Months Ended June 30, 2016	2015 Restated (1)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$408	$445
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	(204)	34
Stock based compensation expense	—	(1)
Depreciation and amortization expense	215	245
Gain on sale of real estate owned	—	(18)
Gain on sale of loans, net	(66)	(194)
Gain on sale of building	(17)	—
Amortization and accretion of loan premiums and discounts and deferred charges	116	(41)
Amortization and accretion of premiums and discounts — securities	77	(29)
Increase in accrued interest receivable	(663)	(121)
Increase in other assets	(9)	(1,230)
Increase in other liabilities	859	1,692
Net cash provided by operating activities	716	782
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments: Available-for-sale	(44)	(5,118)
Proceeds from principal payments, maturities, calls and sales of investments: Available-for-sale	2,509	13,278
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	313	539
Originations of loans held-for-investment, net of repayments	19,550	(2,566)
Loans purchased from third parties	—	(7,416)
Proceeds on sale of loans	4,463	—
Increase in restricted cash	—	(14)
Redemption of FHLB-NY stock	667	1,086
Purchase of premises and equipment	(10)	(187)
Proceeds from sale of real estate owned	—	636
Net cash provided by investing activities	27,448	238
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(26,798)	18,818
Net decrease in FHLB-NY advances and other borrowings	(19,000)	(25,000)
Net cash used in financing activities	(45,798)	(6,182)
Net decrease in cash and cash equivalents	(17,634)	(5,162)
Cash and cash equivalents at beginning of period	63,660	50,992
Cash and cash equivalents at end of period	$46,026	$45,830
Supplemental cash flow information:		
Noncash financing and investing activities		
Transfers to real estate owned	$92	$—
Cash paid for:		

Interest	$1,111	$934
Income taxes	$—	$30

[1] June 30, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

See accompanying notes to consolidated financial statements

5

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

Nature of operations

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

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

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

In September 2003, the Company formed Carver Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures of the Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidations,” Carver Statutory Trust I is unconsolidated for financial reporting purposes. On September 17, 2003, Carver Statutory Trust I issued 13,000 shares, liquidation amount $1,000 per share, of floating rate capital securities. Gross proceeds from the sale of these trust preferred debt securities of $13 million, and proceeds from the sale of the trust's common securities of $0.4 million, were used to purchase approximately $13.4 million aggregate principal amount of the Company's floating rate junior subordinated debt securities due 2033. The trust preferred debt securities are redeemable at par quarterly at the option of the Company beginning on or after September 17, 2008, and have a mandatory redemption date of September 17, 2033. Cash distributions on the trust preferred debt securities are cumulative and payable at a floating rate per annum resetting quarterly with a margin of 3.05% over the three-month LIBOR. Interest on the debentures has been deferred, per the terms of the agreement, as the Company is prohibited from making payments without prior approval.

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

Going Concern

The going concern assumption is a fundamental principle in the preparation of financial statements. It is the responsibility of management to assess the Company's ability to continue as a going concern. In assessing this assumption, the Company has taken into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date of June 30, 2016.

Debenture interest payments on the Carver Statutory Trust I capital securities remain on a deferral status, which is permissible under the terms of the Indenture for up to twenty consecutive quarterly periods. The quarter ended September 30, 2016 will represent the twentieth consecutive quarterly period for which interest payments have been deferred. The Company has expensed the deferred interest through the current period and currently has cash available to make the payment upon receipt of regulatory approval. We have applied for regulatory approval to make interest payments on our Trust Preferred Debt securities in

September 2016 and are not aware of any information as to whether or not such approval will be granted. In connection with its application to the FRB to distribute the deferred interest payments, the Company anticipates that the FRB will review the Company's internal assessment process for capital adequacy, the appropriate of the Company's capital level given its overall risk profile, as well as the comprehensiveness and effectiveness of management's capital planning. There can be no assurance that the FRB will not have a supervisory objection to the Company's application, and, therefore, the Company has no control over whether or not the FRB will permit the deferred interest payments. in the event that the deferred interest payments on the debentures are not paid by September 19, 2016, an event of default will have occurred. If the Company fails to cure such default for a period within 30 days, either the debenture trustee or the holders of not less than 25% of the aggregate principal amount of the debentures then outstanding may, by written notice to the Company, declare the entire principal of the debentures and the interest accrued thereon to be due and payable immediately. If the Company is unable to pay the principal and interest of the debentures due to regulatory restrictions or otherwise, the holders may, thereafter, determine to sue the Company for nonpayment, which lawsuit could include a petition for involuntary bankruptcy. Based on the foregoing matters, there is substantial doubt about our ability to continue as a going concern.

The Company has prepared the consolidated financial statements contained in this report assuming that the Company will be able to continue as a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company's financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company has expensed the deferred interest as necessary and currently has rash available to make the payment upon receipt of regulatory approval.

Regulation

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

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

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

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

On October 25, 2011, Carver's stockholders voted to approve a 1-for-15 reverse stock split. A separate vote of approval was given to convert the Series C preferred stock to non-cumulative non-voting participating preferred stock, Series D (“the Series

D preferred stock”) and to common stock and to exchange the U.S. Treasury's (“Treasury”) Community Development Capital Initiative (“CDCI”) Series B preferred stock for common stock.

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

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

Restatement

On July 12, 2016, the Finance and Audit Committee of the Board of Directors of Carver Bancorp, Inc., after consultation with KPMG LLP, our independent registered public accounting firm at the time, determined that our consolidated financial statements for the fiscal year ended March 31, 2015, and each of the quarters of 2015 and 2016 should no longer be relied upon.

The Company's audited results as of and for the year ended March 31, 2015 as well the unaudited condensed consolidated financial information for the quarterly periods in 2016 and 2015 were restated in the Annual Report on Form 10-K for the year ended March 31, 2016 (the "Restatement"). The Restatement corrected a material error related to the accrual of data processing and other expenses related to invoices paid to the Bank's core system service provider. In fiscal 2016, Carver Bancorp recognized expenses on invoices paid to its core system provider, and during the course of preparation of the fiscal 2016 consolidated financial statements and audit, management determined that $613 thousand of expenses should have been recognized in fiscal 2015. The impact of the restatement on the quarter ended June 30, 2015 was decreases in the provision for loan losses of $83 thousand, data processing expense of $125 thousand, consulting fees of $23 thousand and other non -interest expense of $36 thousand. Management also identified an accounting error related to the reporting of earnings per share (EPS). Under the two class method of computing EPS, the Company has two classes of stock to which undistributed earnings are allocated. Previously, the impact of the undistributed earnings allocated to the shares of the Company’s Series D convertible preferred stock had not been considered in this computation. Basic and Diluted EPS amounts were updated for all periods in a net income position to include 45,118 shares of Series D Preferred Stock which, under certain circumstances, could convert to 5,518,006 shares of common stock. In addition to these errors, adjustments were made related to other individually immaterial errors including certain corrections that had been previously identified but not recorded because they were not material to our consolidated financial statements. These corrections included adjustments to accrued liabilities, provision for loan losses and certain reclassification entries. All applicable amounts relating to this Restatement have been reflected in the consolidated financial statements and disclosed in the notes to the consolidated financial statements in this Form 10-Q.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ended March 31, 2017. The consolidated balance sheet at June 30, 2016 has been derived from the unaudited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended March 31, 2016. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, valuation of real estate owned, realization of deferred tax assets, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future writedowns of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

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

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

NOTE 3. EARNINGS PER COMMON SHARE

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

	Three Months Ended June 30,	
$ in thousands except per share data	2016	2015 Restated [1]
Earnings per common share		
Net income as reported	$408	$ 445
Less: Participated securities share of undistributed earnings	246	266
Net income available to common shareholders of Carver Bancorp, Inc.	$162	$ 179
Weighted average common shares outstanding	3,696,420	3,696,420
Effect of dilutive MRP shares	4,000	4,000
Weighted average common shares outstanding – diluted	3,700,420	3,700,420
Basic earnings per common share	$0.04	$ 0.05
Diluted earnings per common share	$0.04	$ 0.05

[1] June 30, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

NOTE 4. COMMON STOCK DIVIDENDS

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

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

On May 24, 2016, the Bank entered into a Formal Agreement with the OCC to undertake certain compliance-related and other actions as further described in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on May 27, 2016. As a result of the Formal Agreement, the Bank may not declare or pay dividends or make any other capital distributions, including to the Company, without first filing an application with the OCC and receiving the prior approval of the OCC.

NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth changes in each component of accumulated other comprehensive income (loss), net of tax for the three months ended June 30, 2016 and 2015:

Three months ended June 30, 2016	At	Other Comprehensive	At
$ in thousands	March 31, 2016	Income (loss), net of tax	June 30, 2016
Net unrealized gain (loss) on securities available-for-sale	$(307)	$ 359	$ 52
Accumulated other comprehensive (loss) income, net of tax	$(307)	$ 359	$ 52

Three months ended June 30, 2015	At	Other Comprehensive	At
$ in thousands	March 31, 2015	Income, net of tax	June 30, 2015
Net unrealized loss on securities available-for-sale	$(1,045)	$ (868)	$(1,913)
Accumulated other comprehensive loss, net of tax	$(1,045)	$ (868)	$(1,913)

There were no reclassifications out of accumulated other comprehensive income (loss) to the consolidated statement of income for the three months ended June 30, 2016 and 2015.

NOTE 6. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank’s asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC Subtopic 320-10-25 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At June 30, 2016, $54.0 million, or 78.3%, of the Bank’s total securities were classified as available-for-sale, and the remaining $15.0 million, or 21.7%, were classified as held-to-maturity. The Bank had no securities classified as trading at June 30, 2016 and March 31, 2016.

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at June 30, 2016:

$ in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$ 4,201	$55	$ —	$ 4,256
Federal Home Loan Mortgage Corporation	7,375	4	44	7,335
Federal National Mortgage Association	7,546	32	—	7,578
Other	45	—	—	45
Total mortgage-backed securities	19,167	91	44	19,214
U.S. Government Agency Securities	24,601	151	2	24,750
Other investments	10,192	—	144	10,048
Total available-for-sale	53,960	242	190	54,012
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	2,256	165	—	2,421
Federal National Mortgage Association and Other	11,727	274	—	12,001
Total held-to-maturity mortgage-backed securities	13,983	439	—	14,422
Corporate Bonds	1,000	20	—	1,020
Total held-to maturity	14,983	459	—	15,442
Total securities	$ 68,943	$701	$ 190	$ 69,454

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

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2016:

$ in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$ 4,578	$45	$ —	$ 4,623
Federal Home Loan Mortgage Corporation	7,778	—	100	7,678
Federal National Mortgage Association	7,860	—	36	7,824
Other	45	—	—	45
Total mortgage-backed securities	20,261	45	136	20,170
U.S. Government Agency Securities	26,077	27	35	26,069
Other investments	10,148	—	207	9,941
Total available-for-sale	56,486	72	378	56,180
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	2,379	150	—	2,529
Federal National Mortgage Association and Other	11,932	192	—	12,124
Total held-to-maturity mortgage-backed securities	14,311	342	—	14,653
Corporate Bonds	1,000	—	—	1,000
Total held-to-maturity	15,311	342	—	15,653
Total securities	$ 71,797	$414	$ 378	$ 71,833

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

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at June 30, 2016 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	$—	$—	$44	$5,893	$44	$5,893
U.S. Government Agency Securities	2	2,998	—	—	2	2,998
Other investments [(1)]	—	—	144	9,856	144	9,856
Total available-for-sale securities	$2	$2,998	$188	$15,749	$190	$18,747

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

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at March 31, 2016 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	$—	$—	$136	$15,502	$136	$15,502
U.S. Government Agency Securities	3	2,996	32	11,242	35	14,238
Other investments [(1)]	—	—	207	9,793	207	9,793
Total available-for-sale securities	$3	$2,996	$375	$36,537	$378	$39,533

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

A total of four securities had an unrealized loss at June 30, 2016 compared to 13 at March 31, 2016. There were two mortgage-backed securities, and one investment in a CRA fund that had an unrealized loss position for more than 12 months at June 30, 2016. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, the risk of credit loss is minimal. Management believes that these unrealized losses are a direct result of the current rate environment and has the ability and intent to hold the securities until maturity or the valuation recovers.

The amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Company will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security’s amortized cost basis and its fair value would be included in other comprehensive income (loss). At June 30, 2016, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

The following is a summary of the carrying value (amortized cost) and fair value of securities at June 30, 2016, by remaining period to contractual maturity (ignoring earlier call dates, if any). Actual maturities may differ from contractual maturities because certain security issuers have the right to call or prepay their obligations. The table below does not consider the effects of possible prepayments or unscheduled repayments.

$ in thousands	Amortized Cost	Fair Value	Weighted Average Yield
Available-for-Sale:			
One through five years	$ 4,999	$4,998	1.52 %
Five through ten years	12,120	12,184	2.05 %
After ten years	36,841	36,830	1.42 %

Total	$ 53,960	$54,012	1.57	%
Held-to-maturity:				
Five through ten years	$ 6,819	$7,069	3.02	%
After ten years	8,164	8,373	2.60	%
Total	$ 14,983	$15,442	2.78	%

12

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

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

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

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

The following is a summary of loans receivable, gross of allowance for loan losses, and net of loans held-for-sale at June 30, 2016 and March 31, 2016:

	June 30, 2016		March 31, 2016	
$ in thousands	Amount	Percent	Amount	Percent
Gross loans receivable:				
One-to-four family	$133,353	24 %	$141,243	24 %
Multifamily	81,527	15 %	94,202	16 %
Commercial real estate	267,463	48 %	272,497	47 %
Construction	5,021	1 %	5,033	1 %
Business (1)	69,745	13 %	71,277	12 %
Consumer (2)	125	— %	42	— %
Total loans receivable	$557,234	100 %	$584,294	100 %
Unamortized premiums, deferred costs and fees, net	4,444		4,725	
Allowance for loan losses	(5,183)		(5,232)	
Total loans receivable, net	$556,495		$583,787	
Loans HFS	$5,829		$2,495	

(1) Includes business overdrafts

(2) Includes personal loans and consumer overdrafts

13

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the three month periods ended June 30, 2016 and 2015, and the fiscal year ended March 31, 2016.

Three
months
ended
June
30,
2016