

CARVER BANCORP INC  
Form 10-Q  
November 10, 2015

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

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

For the quarterly period ended September 30, 2015  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 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.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Class

Outstanding at November 9, 2015

Common Stock, par value \$0.01

3,696,087

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## PART I. FINANCIAL INFORMATION

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

\$ in thousands except per share data	September 30, 2015	March 31, 2015
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$56,919	\$44,864
Money market investments	753	6,128
Total cash and cash equivalents	57,672	50,992
Restricted cash	154	6,354
Investment securities:		
Available-for-sale, at fair value	75,760	101,185
Held-to-maturity, at amortized cost (fair value of \$16,311 and \$12,231 at September 30, 2015 and March 31, 2015, respectively)	16,087	11,922
Total investment securities	91,847	113,107
Loans held-for-sale ("HFS")	2,586	2,576
Loans receivable:		
Real estate mortgage loans	485,916	412,204
Commercial business loans	76,766	70,555
Consumer loans	89	434
Loans, net	562,771	483,193
Allowance for loan losses	(4,572)	(4,477)
Total loans receivable, net	558,199	478,716
Premises and equipment, net	6,882	7,075
Federal Home Loan Bank of New York ("FHLB-NY") stock, at cost	3,558	3,519
Accrued interest receivable	3,516	2,781
Other assets	12,322	11,266
Total assets	\$736,736	\$676,386
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Savings	\$92,174	\$95,009
Non-interest bearing checking	56,854	50,731
Interest-bearing checking	31,898	30,860
Money market	163,832	148,702
Certificates of deposit	239,258	200,123
Mortgagors deposits	2,278	2,336
Total deposits	586,294	527,761
Advances from the FHLB-NY and other borrowed money	83,403	83,403
Other liabilities	11,819	10,243
Total liabilities	681,516	621,407
<b>EQUITY</b>		
Preferred stock, (par value \$0.01 per share: 45,118 Series D shares, with a liquidation preference of \$1,000 per share, issued and outstanding)	45,118	45,118

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Common stock (par value \$0.01 per share: 10,000,000 shares authorized; 3,698,031 shares issued; 3,696,087 shares outstanding at September 30, 2015 and March 31, 2015, respectively)	61	61	
Additional paid-in capital	55,470	55,468	
Accumulated deficit	(44,194	) (44,206	)
Treasury stock, at cost (1,944 shares at September 30, 2015 and March 31, 2015)	(417	) (417	)
Accumulated other comprehensive loss	(818	) (1,045	)
Total equity	55,220	54,979	
Total liabilities and equity	\$736,736	\$676,386	

See accompanying notes to consolidated financial statements

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

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

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

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

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

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

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Supplemental cash flow information:

Noncash financing and investing activities

Transfers to real estate owned	\$—	\$2,434
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Cash paid for:

Interest	\$1,927	\$1,727
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Income taxes	\$86	\$88
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See accompanying notes to consolidated financial statements

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CARVER BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Nature of operations

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

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

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

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

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

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

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

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

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

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

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

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ended March 31, 2016. The consolidated balance sheet at September 30, 2015 has been derived from the unaudited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended March 31, 2015. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, valuation of real estate owned, realization of deferred tax assets, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future writedowns of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

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

## NOTE 3. EARNINGS PER COMMON SHARE

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

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

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Net (loss) income available to common shareholders of Carver Bancorp, Inc.

Weighted average common shares outstanding	3,696,420	3,696,370	3,696,420	3,696,297
Basic earnings per common share	\$(0.04	) \$0.06	\$—	\$0.10
Diluted earnings per common share	(0.04	) 0.06	—	0.10

NOTE 4. COMMON STOCK DIVIDENDS

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

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

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

#### NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

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

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

  

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

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

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

#### NOTE 6. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC Subtopic 320-10-25 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At September 30, 2015, \$75.8 million, or 82.5%, of the Bank's total securities

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were classified as available-for-sale, and the remaining \$16.1 million, or 17.5%, were classified as held-to-maturity. The Bank had no securities classified as trading at September 30, 2015 and March 31, 2015.

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

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

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

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2015:

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

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

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

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\$ 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	\$—	\$—	\$(209)	\$17,836	\$(209)	\$17,836
U.S. Government Agency Securities	(3)	4,997	(415)	26,117	(418)	31,114
Other investments <sup>(1)</sup>	—	—	(234)	9,766	(234)	9,766
Total available-for-sale securities	(3)	4,997	(858)	53,719	(861)	58,716
Held-to-Maturity:						
Mortgage-backed securities	(27)	2,901	—	—	(27)	2,901
Total held-to-maturity securities	(27)	2,901	—	—	(27)	2,901
Total securities	\$(30)	\$7,898	\$(858)	\$53,719	\$(888)	\$61,617

<sup>(1)</sup> CRA fund comprised of over 95% agency securities.

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

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

<sup>(1)</sup> CRA fund comprised of over 95% agency securities.

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

The amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Company will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). At September 30, 2015, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

The following is a summary of the carrying value (amortized cost) and fair value of securities at September 30, 2015, by remaining period to contractual maturity (ignoring earlier call dates, if any). Actual maturities may differ from contractual maturities because certain security issuers have the right to call or prepay their obligations. The table below does not consider the effects of possible prepayments or unscheduled repayments.



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\$ in thousands	Amortized Cost	Fair Value	Weighted Average Yield	
Available-for-Sale:				
One through five years	9,983	9,965	1.44	%
Five through ten years	19,183	18,891	1.99	%
After ten years	47,412	46,904	1.56	%
Total	\$76,578	\$75,760	1.65	%
Held-to-maturity:				
Five through ten years	\$7,076	\$7,188	3.00	%
After ten years	9,011	9,123	2.51	%
Total	\$16,087	\$16,311	2.72	%

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

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

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

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

The following is a summary of loans receivable, net of allowance for loan losses, and loans held-for-sale at September 30, 2015 and March 31, 2015:

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

Loans HFS	\$2,586	\$2,576
(1) Includes business overdrafts		
(2) Includes personal loans and consumer overdrafts		

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

Three months ended September 30, 2015

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

Six months ended September 30, 2015

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

Fiscal year ended March 31, 2015

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

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

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Three months ended September 30, 2014

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

Six months ended September 30, 2014

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

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

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

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

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

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

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

The Bank utilizes an internal loan classification system as a means of reporting problem loans within its loan categories. Loans may be classified as "Pass," "Special Mention," "Substandard," "Doubtful," and "Loss." Loans rated Pass have demonstrated satisfactory asset quality, earning history, liquidity, and other adequate margins of creditor protection. They represent a moderate credit risk and some degree of financial stability. Loans are considered collectible in full, but perhaps require greater than average amount of loan officer attention. Borrowers are capable of absorbing normal setbacks without failure. Loans rated Special Mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Loans rated Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans rated Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged off immediately to the allowance for loan losses.

One-to-four family residential loans and consumer and other loans are rated non-performing if they are delinquent in payments ninety or more days, a troubled debt restructuring with less than six months contractual performance or past maturity. All other one-to-four family residential loans and consumer and other loans are performing loans.

As of September 30, 2015, the risk category by class of loans is as follows:

\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	\$108,046	\$233,495	\$5,067	\$68,557
Special Mention	—	2,197	—	1,551
Substandard	1,241	7,015	—	6,658
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$109,287	\$242,707	\$5,067	\$76,766
			One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:				
Performing				\$89
Non-Performing				—
Total				\$128,855

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

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\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	\$93,218	\$181,340	\$5,076	\$62,419
Special Mention	—	1,890	—	1,065
Substandard	1,488	2,621	—	7,115
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$94,706	\$185,851	\$5,076	\$70,599
			One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:				
Performing			\$122,689	\$434
Non-Performing			3,838	—
Total			\$126,527	\$434

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

September 30, 2015

\$ in thousands	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Financing Receivables
One-to-four family	\$253	\$319	\$2,839	\$3,411	\$125,444	\$128,855
Multifamily	—	425	816	1,241	108,046	109,287
Commercial real estate	—	3,460	—	3,460	239,247	242,707
Construction	—	—	—	—	5,067	5,067
Business	—	873	—	—	—	—