CARVER BANCORP INC
Form 10-Q
February 14, 2011

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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, 2010

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).

o Yes o 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):

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.

Common Stock, par value $0.01	**2,484,285**
Class	Outstanding at December 31, 2010

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

	December 31, 2010 (unaudited)	March 31, 2010
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 45,645	$ 37,513
Money market investments	7,055	833
Total cash and cash equivalents	52,700	38,346
Investment securities:		
Available-for-sale, at fair value	51,114	43,050
Held-to-maturity, at amortized cost (fair value of $19,560 and $12,603 at December 31, 2010 and March 31, 2010, respectively)	19,049	12,343
Total securities	70,163	55,393
Loans held-for-sale (HFS)	1,700	
Loans receivable:		
Real estate mortgage loans	547,190	600,913
Commercial business loans	53,776	67,695
Consumer loans	1,346	1,403
Loans, net	602,312	670,011
Allowance for loan losses	(21,322)	(12,000)
Total loans receivable, net	580,990	658,011
Premises and equipment, net	11,428	12,076
Federal Home Loan Bank of New York (FHLB-NY) stock, at cost	3,353	4,107
Bank owned life insurance	10,042	9,803
Accrued interest receivable	2,773	3,539
Core deposit intangibles, net	114	228
Deferred Tax Asset (net of valuation allowance)		14,321
Other assets	10,240	9,650
Total assets	$ 743,503	$ 805,474
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Savings	$ 105,671	$ 115,817
Non-Interest Bearing Checking	81,711	58,792
NOW	41,885	43,593

Money Market	69,235	67,122
Certificates of Deposit	290,406	317,925
Total Deposits	588,908	603,249
Advances from the FHLB-NY and other borrowed money	112,535	131,557
Other liabilities	9,204	8,982
Total liabilities	710,647	743,788
Stockholders equity:		
Preferred stock (par value $0.01 per share, 2,000,000 shares authorized; 18,980 Series A shares, with a liquidation preference of $1,000.00 per share, issued and outstanding at March 31, 2010 exchanged for 18,980 Series B shares with a liquidation preference of $1,000.00 per share, issued and outstanding December 31, 2010	18,980	18,980
Common stock (par value $0.01 per share: 10,000,000 shares authorized; 2,524,691 shares issued; 2,484,285 and 2,474,719 shares outstanding at December 31, 2010 and March 31, 2010, respectively)	25	25
Additional paid-in capital	26,330	24,374
Retained earnings	(15,879)	18,806
Non-controlling interest	4,637	
Treasury stock, at cost (40,406 and 49,972 shares at December 31, 2010 and March 31, 2010, respectively)	(568)	(697)
Accumulated other comprehensive income	(669)	198
Total stockholders equity	32,856	61,686
Total liabilities and stockholders equity	$ 743,503	$ 805,474

See accompanying notes to consolidated financial statements

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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,	
	2010	2009	2010	2009 *
Interest Income:				
Loans	$ 8,021	$ 9,361	$ 25,656	$ 28,149
Mortgage-backed securities	460	632	1,572	2,063
Investment securities	105	73	263	259
Money market investments	19	114	77	129
Total interest income	8,605	10,180	27,568	30,600
Interest expense:				
Deposits	1,366	1,637	4,386	5,452
Advances and other borrowed money	960	1,063	2,984	2,999
Total interest expense	2,326	2,700	7,370	8,451
Net interest income	6,279	7,480	20,198	22,149
Provision for loan losses	6,242	1,286	20,318	3,290
Net interest income after provision for loan losses	37	6,194	(120)	18,859
Non-interest income:				
Depository fees and charges	725	757	2,224	2,256
Loan fees and service charges	183	186	618	753
Gain on sale of securities, net	1	446	764	446
(Loss)/Gain on sales of loans, net	(1)	(223)	7	(220)
Gain (Loss) on sale of real estate owned				
New Market Tax Credit (NMTC) fees	473	431	1,654	506
Lower of Cost or market adjustment on loans held for sale				(2,136)
Other	349	1,357	569	1,824
Total non-interest income	1,730	2,954	5,836	3,429
Non-interest expense:				
Employee compensation and benefits	2,664	3,053	8,771	9,366
Net occupancy expense	928	1,624	2,880	3,765
Equipment, net	587	569	1,672	1,569
Consulting fees	498	205	1,043	574
Federal deposit insurance premiums	502	255	1,253	1,303
Other	2,459	3,228	7,120	6,352

Total non-interest expense		7,638		8,934		22,739		22,929
(Loss)/Income before income taxes		(5,871)		214		(17,023)		(641)
Income tax expense/(benefit)		2,317		(574)		17,018		(1,810)
Net (loss) income	$	(8,188)	$	788	$	(34,041)	$	1,169
(Loss)/Earnings per common share:	$	(3.30)	$	0.22	$	(13.84)	$	0.18

* Restated as previously disclosed in a Form 8-K filed with the Securities and Exchange Commission on July 15, 2010

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, 2010
(In thousands)
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Non-controlling interest	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance March 31, 2010	**$ 18,980**	**$ 25**	**$ 24,374**	**$ (697)**		**$ 18,806**	**$ 198**	**$ 61,686**
Net loss						(34,041)		(34,041)
Minimum pension liability adjustment							(110)	(110)
Reclassification of gains included net of taxes							(458)	(458)
Change in net unrealized Gain on available-for-sale securities, net of taxes							(299)	(299)
Comprehensive income (loss), net of taxes:						(34,041)	(867)	(34,908)
Non Controlling Interest on sale of NMTC Equity interest in investments					6,655			6,655
Transfer between Controlling and Non Controlling Interest			2,018		(2,018)			
Common Dividends paid						(124)		(124)
Preferred Dividends paid						(588)		(588)
Accrued Preferred Dividends			(68)			68		
Treasury stock activity			3	129				132
Stock based compensation			3					3
Balance December 31, 2010	**$ 18,980**	**$ 25**	**$ 26,330**	**$ (568)**	**$ 4,637**	**$ (15,879)**	**$ (669)**	**$ 32,856**

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 December 31,	
	2010	**2009***
OPERATING ACTIVITIES		
Net (loss)/income	$ (34,041)	$ 1,169
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	20,318	3,290
Deferred Tax Asset and related valuation allowance	14,461	
Provision for REO losses	38	
Stock based compensation expense	57	5
Depreciation and amortization expense	1,146	1,371
Amortization of intangibles	114	114
Loss from sale of real estate owned	20	14
Gain on sale of building		(1,172)
Gain on sale of securities	(764)	(446)
Gain on sale of loans	(7)	220
Market Adjustment on Held For Sale Loans		2,136
Originations of loans held-for-sale	(2,413)	(1,464)
Proceeds from sale of loans held-for-sale	2,413	1,635
(Increase) decrease in accrued interest receivable	766	281
(Increase) decrease in loan premiums and discounts and deferred charges	(510)	428
(Increase) decrease in premiums and discounts securities	(695)	311
(Increase) decrease in other assets	(1,832)	8,449
Increase (decrease) in other liabilities	222	(515)
Net cash used in operating activities	(707)	(1,300)
INVESTING ACTIVITIES		
Purchases of securities:		
Available-for-sale	(77,106)	(23,657)
Held-to-maturity	(7,994)	
Proceeds from principal payments, maturities, calls and sales of securities:		
Available-for-sale	68,444	35,601
Held-to-maturity	1,407	2,208
Originations of loans held-for-investment	(18,680)	(96,360)
Loans purchased from third parties		(10,760)
Principal collections on loans	75,246	78,634
Proceeds on sale of loans	900	
(Purchase) redemption of FHLB-NY stock	754	(923)
Disposals /(Additions) to premises and equipment	(498)	3,302
Proceeds from sale of real estate owned	7	562
Net cash provided by (used in) investing activities	42,480	(11,393)

FINANCING ACTIVITIES				
Net decrease in deposits		(14,340)		(18,431)
Net change in borrowings of FHLB-NY advances and other borrowings		(19,022)		38,548
Increase in capital		6,655		
Dividends paid		(712)		(1,457)
Net cash (used in) provided by financing activities		(27,420)		18,660
Net (decrease) increase in cash and cash equivalents		14,353		5,967
Cash and cash equivalents at beginning of period		38,347		13,341
Cash and cash equivalents at end of period	$	52,700	$	19,308
Supplemental information:				
Noncash Transfers-				
Change in unrealized loss on valuation of available-for-sale investments, net	$	(672)	$	402
Transfers from loans held-for-investment to loans held-for-sale	$	2,600	$	
Cash paid for-				
Interest	$	7,458	$	8,214
Income taxes	$	1,224	$	88

* Restated as previously disclosed in a Form 8-K filed with the Securities and Exchange Commission on July 15, 2010

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 or Carver Federal), Alhambra Holding Corp, an inactive Delaware corporation, and Carver Federal s wholly-owned subsidiaries, Carver Federal Savings Bank (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. Th 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.

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, 2010 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. Management believes that prepayment assumptions on mortgage-backed securities and mortgage loans are appropriate and the allowance for loan losses is adequate. 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.

In addition, the Office of Thrift Supervision (OTS), 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 OTS 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.

In June 2009, the Financial Accounting Standards Board (FASB) released the Accounting Standards Codification (ASC or Codification) as the single source of authoritative non-governmental GAAP. The Codification is effective for interim and annual periods ended after September 15, 2009. All previously existing non Securities and Exchange Commission (SEC) accounting standards documents are superseded. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. Rules and interpretive releases of the SEC are also sources of authoritative GAAP for SEC registrants. The Company s policies were not affected by the conversion to ASC. However, references to specific accounting guidance in the Company s financial statements have been changed to the appropriate section of the ASC.

Reclassifications

Certain amounts in the consolidated financial statements presented for the prior year period have been reclassified to conform to the current year presentation.

Restatement of Third Quarter Fiscal 2010 Results to Reflect the Correct Estimated Value of Certain Residential Mortgage Loans

As previously disclosed in a Form 8-K filed with the SEC on July 15, 2010, the Company restated the previously reported operating results for the third fiscal quarter ended December 31, 2009. This was to adjust the estimated fair value of certain residential mortgage loans, which were previously classified as Held-for-Sale. The adjustment reduced net income for the nine month period ended December 31, 2009 from $2.3 million to $1.2 million. For additional information, please review the Company s Form 10-K for the year ended March 31, 2010 and the Form 8-K filed on July 15, 2010. All financial information provided herein reflects these restated amounts.

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NOTE 3. EARNINGS PER SHARE

The following table reconciles the earnings (loss) available to common shareholders (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted earnings (loss) per share for years ended December 31 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009*
Earnings per common share basic				
Net (loss) income	$ (8,188)	$ 788	$ (34,041)	$ 1,169
Less: CPP Preferred Dividends	82	237	588	712
Dividends paid and undistributed (losses)/earnings allocated to participating securities	(59)	4	(248)	8
Net Income Available to Common Shareholders	$ (8,211)	$ 547	$ (34,381)	$ 449
Weighted average common shares outstanding	2,484,285	2,474,719	2,483,350	2,473,164
Earnings per common share	$ (3.30)	$ 0.22	$ (13.84)	$ 0.18
Earnings per common share diluted				
Net income		$ 788		$ 1,174
Less: CPP Preferred Dividends		237		712
Dividends paid and undistributed earnings allocated to participating securities		4		8
Net Income Available to Common Shareholders		$ 547		$ 454
Weighted average common shares outstanding basic		2,474,719		2,473,164
Effect of dilutive securities stock options and unvested restricted stock		18,223		18,223
Weighted average shares outstanding diluted		2,492,942		2,491,387
Earnings per common share		$ 0.22		$ 0.18

* Restated as previously disclosed in a Form 8-K filed with the Securities and Exchange Commission on July 15, 2010

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NOTE 4. ACCOUNTING FOR STOCK BASED COMPENSATION

All stock-based compensation is recognized as an expense measured at the fair value of the award. 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, 2010 and 2009 totaled $51,000 and $5,000 respectively.

NOTE 5. BENEFIT PLANS

Carver Federal has a non-contributory defined benefit pension plan covering all 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. COMMON STOCK DIVIDEND

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 was suspending payment of the quarterly cash dividend on its common stock. While no assurance can be given that the payment of cash dividends will resume, the Board will continue to monitor business conditions, the Company s capitalization and profitability levels, asset quality and other factors in considering whether to resume such payments in the future.

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. 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. Debt securities for which the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. All other securities not classified as trading or held-to-maturity are classified as available-for-sale and reported at fair value with unrealized gains and losses included, on an after-tax basis, in a separate component of stockholders equity. At December 31, 2010, the Bank had no securities classified as trading. At December 31, 2010, $51.1 million, or 72.9% of the Bank s mortgage-backed and other investment securities, were classified as available-for-sale. The remaining $19.0 million or 27.1% were classified as held-to-maturity.

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The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at December 31, 2010 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$ 31,383	$ 8	$ (403)	$ 30,988
Federal Home Loan Mortgage Corporation	1,972		(66)	1,906
Federal National Mortgage Association	4,538		(92)	4,446
Other	45			45
Total mortgage-backed securities	37,938	8	(561)	37,385
U.S. Government Agency Securities	13,970		(241)	13,729
Total available-for-sale	51,908	8	(802)	51,114
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	8,019	226		8,245
Federal Home Loan Mortgage Corporation	8,373	170		8,543
Federal National Mortgage Association	2,532	117	(1)	2,648
Total mortgage-backed securities	18,924	513	(1)	19,436
Other	125		(1)	124
Total held-to-maturity	19,049	513	(2)	19,560
Total securities	$ 70,957	$ 521	$ (804)	$ 70,674

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2010 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$ 23,993	$ 27	$ (114)	$ 23,906
Federal Home Loan Mortgage Corporation	4,293	232		4,525
Federal National Mortgage Association	12,469	283	(2)	12,750
Other	352	85	(52)	385
Total mortgage-backed securities	41,107	627	(168)	41,566
U.S. Government Agency Securities	1,496		(12)	1,484
Total available-for-sale	42,603	627	(180)	43,050

Held-to-Maturity:								
Mortgage-backed securities:								
Government National Mortgage Association		430		41				471
Federal Home Loan Mortgage Corporation		8,797		74				8,871
Federal National Mortgage Association		2,976		147				3,123
Total mortgage-backed securities		12,203		262				12,465
Other		140				(2)		138
Total held-to-maturity		12,343		262		(2)		12,603
Total securities	$	54,946	$	889	$	(182)	$	55,653

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The following table sets forth the unrealized losses and fair value of securities at December 31, 2010 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	$ (561)	$ 36,076	$	$	$ (561)	$ 36,076
Agencies	(241)	13,729			$ (241)	$ 13,729
Total available-for-sale	$ (802)	$ 49,805	$	$	$ (802)	$ 49,805
Held-to-Maturity:						
Mortgage-backed securities	$ (1)	$ 354	$	$	$ (1)	$ 354
Other			(1)	124	(1)	124
Total held-to-maturity	$ (1)	$ 354	$ (1)	$ 124	$ (2)	$ 478
Total securities	$ (803)	$ 50,159	$ (1)	$ 124	$ (804)	$ 50,283

The following table sets forth the unrealized losses and fair value of securities at March 31, 2010 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	$ (42)	$ 13,172	$ (126)	$ 7,682	$ (168)	$ 20,855
Agencies	(12)	1,484			(12)	1,484
Total available-for-sale	$ (54)	$ 14,656	$ (126)	$ 7,682	$ (180)	$ 22,339
Held-to-Maturity:						
Other			(2)	137	(2)	137
Total held-to-maturity	$	$	$ (2)	$ 137	$ (2)	$ 137
Total securities	$ (54)	$ 14,656	$ (128)	$ 7,819	$ (182)	$ 22,476

A total of eighteen securities had an unrealized loss at December 31, 2010 compared to seven at March 31, 2010, based on estimated fair value. The composition of securities in the unrealized loss position were: one Government National Mortgage Association (GNMA) mortgage backed securities, three Federal National Mortgage Association (FNMA) mortgage backed securities, eight Agency bonds, four Agency Commercial Mortgage Obligations (CMO s) and two Small Business Association (SBA) loan pools. These represented 11%, 10%, 27%, 51% and less than 1% of securities which had an unrealized loss at December 31, 2010, 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. The impairments are deemed temporary based on the direct relationship of the rise in fair value to movements in interest rates, the life of the investments and their high credit quality. Unrealized losses identified as other than temporary are recognized in earnings. When there are losses on a debt security which management does not intend to sell, and for which it is more-likely-than-not that the entity will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security s amortized cost basis and its fair value would be included in other comprehensive income. At December 31, 2010, the Bank did not have any securities that would be classified as having other than temporary impairment in its investment portfolio.

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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 (formerly known as SFAS No. 5) whereby management evaluates the risk of loss potential of homogeneous 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 loans.

To determine the balance of the ALLL, management evaluates the risk of potential loss to these pools of homogenous pass rated or criticized and classified loans, which are risk rated special mention, substandard and doubtful. This analysis is based upon a review of 10 different factors that are then applied to the homogenous 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 imbedded in a portfolio, management also reviews nine qualitative factors to determine if reserves should be increased based upon any of those factors. These nine factors are reviewed and analyzed for each loan type and each risk rating. The lower the risk rating, the greater the risk for potential loss.

The Specific Allowance for Classified loans is determined in accordance with ASC Topic 310 (formerly known as SFAS No. 114) 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 $1 million or more are identified and reviewed for individual evaluation for impairment. Carver also performs an impairment analysis on all trouble 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 homogeneous 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 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 guidance, 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.

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The following is a summary of loans receivable, net of allowance for loan losses at December 31, 2010 and March 31, 2010 (dollars in thousands).

	December 31, 2010		March 31, 2010	
	Amount	**Percent**	**Amount**	**Percent**
Gross loans receivable:				
One- to four-family	$ 86,585	14.27%	$ 90,150	13.40%
Multifamily	132,901	21.90%	141,702	21.06%
Non-residential	249,560	41.11%	259,619	38.59%
Construction	82,242	13.55%	111,348	16.55%
Business	54,268	8.94%	68,523	10.19%
Consumer and other [1]	1,346	0.22%	1,403	0.21%
Total loans receivable	606,902	100.00%	672,745	100.00%
Add:				
Premium on loans	118		130	
Less:				
Deferred fees and loan discounts	(4,708)		(2,864)	
Allowance for loan losses	(21,322)		(12,000)	
Total loans receivable, net	$ 580,990		$ 658,011	

[1] Includes personal, credit card, and home improvement

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 the market conditions in this area.

The following is an analysis of the allowance for loan losses for the nine month periods 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

Ending Balance: collectively evaluated for impairment	381	2,249	1,347	184	1,589	68	5,817
Ending Balance: individually evaluated for impairment	2,549	2,810	3,165	5,868	1,088	25	15,505
Financing Receivables Ending Balance:	84,251	132,668	248,068	82,203	53,776	1,346	602,312
Ending Balance: collectively evaluated for impairment	59,671	113,567	206,314	2,799	42,770	1,266	426,387
Ending Balance: individually evaluated for impairment	24,580	19,101	41,754	79,404	11,006	80	175,925

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The following is a summary of non-performing loans at December 31, 2010 (in thousands).

	December 31, 2010
Loans accounted for on a non-accrual basis:	
Gross loans receivable:	
One- to four-family	$ 16,290
Multifamily	14,076
Non-residential	12,231
Construction	40,060
Business	7,471
Consumer	20
Total non-accrual loans	90,148

Non-performing loans totaled $90.1 million at December 31, 2010 versus $47.6 million at March 31, 2010. Non-performing loans at December 31, 2010, were comprised of $66.7 million of loans 90 days or more past due and non-accruing, $4.6 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, 2010, were comprised of $14.2 million of loans 90 days or more past due and non-accruing, $21.9 million of loans that are either performing or less than 90 days past due and have been deemed to be impaired and $11.5 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.

Loans not meeting the criteria under the credit quality indicators described below that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2010, 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	113,568	206,313	2,799	42,770
Special Mention	1,333	5,586	32,014	5,416
Substandard	17,396	35,351	40,229	5,501
Doubtful	372	817	7,161	89
Total	$ 132,669	$ 248,067	$ 82,203	$ 53,776

	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$ 67,961	$ 1,326
Non-Performing	16,290	20
Total	$ 84,251	$ 1,346

The following table presents an aging analysis of the recorded investment of past due financing receivable as of December 31, 2010. 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	Total Financing Receivables
One-to-four family residential	$ 6,567	$ 5,343	$ 8,706	$ 20,615	$ 501	$ 7,318	$ 55,816	$ 84,251
Multi-family mortgage	227	1,963	12,932	15,122	1,144		116,403	132,669
Commercial real estate	4,000	2,607	5,377	11,985		7,299	228,784	248,067
Construction			35,000	35,000	923	4,137	42,143	82,203
Business	9,337	4	4,629	13,969	2,003	838	36,965	53,776
Consumer and other	1	31	20	52			1,294	1,346
Total	$ 20,132	$ 9,948	$ 66,664	$ 96,744	$ 4,571	$ 19,592	$ 481,405	$ 602,312

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

(2) $0.7 million are TDR loans that have performed in accordance with their modified terms for at least six months and are considered performing.

$18.9 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:

$6.8 million loans are non accrual as they are not performing in accordance with their modified terms

$4.4 million are 30-59 days past due.

$0.06 million loans are 60-89 days past due.

$7.7 million are greater than 90 days past due.

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The following table presents the recorded investment and unpaid principal balances for impaired loans and TDR loans ($19.6 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 December 31, 2010
(In thousands)

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:			
One-to-four family residential	4,388	4,388	
Multi-family mortgage			
Commercial real estate	980	980	
Construction	11,103	11,103	
Business	2,156	2,156	
Consumer and other			
With an allowance recorded:			
One-to-four family residential	4,299	4,299	348
Multi-family mortgage	11,562	11,562	2,189
Commercial real estate	7,938	7,938	329
Construction	22,289	32,150	1,345
Business			
Consumer and other			
Total			
One-to-four family residential	8,687	8,687	348
Multi-family mortgage	11,562	11,562	2,189
Commercial real estate	8,918	8,918	329
Construction	33,392	43,253	1,345
Business	2,156	2,156	
Consumer and other			

NOTE 9. INCOME TAXES

The components of income tax expense for the nine months ended December 31, 2010 are as follows (in thousands):

	December 31, 2010
Federal income tax expense (benefit):	
Current	$ (1,850)
Deferred	2,439
Valuation Allowance	(16,173)
	(15,584)
State and local income tax expense (benefit):	
Current	(708)
Deferred	1,303
Valuation Allowance	(2,029)
	(1,434)
Total income tax expense:	$ (17,018)

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, 2010 (dollars in thousands):

	December 31, 2010	
	Amount	Percent
Statutory Federal income tax	$ (5,788)	34.0%
State and local income taxes, net of Federal tax benefit	118	(0.7)%
New markets tax credit	0	%
General business credit	(24)	0.1%
Tax Gain on Sale of NMTC	4,905	(28.8)%
Valuation allowance	18,203	(106.93)%
Other	(396)	2.3%
Total income tax expense	$ 17,018	(100.0)%

Carver Federal stockholders equity includes a $17.0 million tax expense for the period ended December 31, 2010, which has been segregated for federal income tax purposes as a bad debt reserve. For the period ended December 31, 2010, the total income tax expense of $17.0 million includes a $18.2 million valuation reserve taken on the Bank s deferred tax assets. For the year ended March 31, 2010, the total income tax benefit of $2.9 million included a $0.5 million tax receivable deemed no longer collectible.

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Tax effects of existing temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are included in other assets at December 31, 2010 and March 31, 2010 are as follows (in thousands):

	December 31, 2010	March 31, 2010
Deferred Tax Assets:		
Allowance for loan losses	$ 8,152	$ 4,080
Deferred loan fees	615	686
Compensation and benefits	29	58
Non-accrual loan interest	2,639	1,344
Capital loss carryforward		84
Purchase accounting adjustment	169	131
Net operating loss carry forward	(34)	112
New markets tax credit	5,947	7,322
Depreciation	110	316
Minimum pension liability		110
Market value adjustment on HFS loans	817	817
Other	390	180
Unrealized gain on available-for-sale securities	1	
Total Deferred Tax Assets	18,835	15,240
Deferred Tax Liabilities:		
Income from affiliate	632	738
Unrealized gain on available-for-sale securities		181
Total Deferred Tax Liabilities	632	919
Valuation Allowance	(18,203)	
Net Deferred Tax Assets	$	$ 14,321

Where applicable, deferred tax assets are reduced by a valuation allowance for any portion determined not likely to be realized. This valuation allowance would subsequently be adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. A valuation allowance of $18.2 million was recorded during the nine month period as management concluded that it is more likely than not that the Company will not be able to fully realize the benefit of its deferred tax assets. The change in valuation allowance for the quarter ended December 31, 2010 amounted to $(2.5) million due to a reduction in the recognized deferred tax asset for the corresponding period.
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.

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NOTE 10. FAIR VALUE MEASUREMENTS

On April 1, 2008, the Company adopted ASC Topic 820 (formerly SFAS No. 157, *Fair Value Measurements*) which, among other things, defines fair value; establishes a consistent framework for measuring fair value; and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following table presents, by ASC 820 valuation hierarchy, assets that are measured at fair value on a recurring basis as of December 31, 2010 and March 31, 2010, and that are included in the Company s Consolidated Statements of Financial Condition at these dates:

	Fair Value Measurements at December 31, 2010, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
	(in thousands)			
Assets:				
Mortgage servicing rights	$	$	$ 693	$ 693
Investment securites:				
Available for sale:				
Government National Mortgage Association		$ 30,988	$	$ 30,988
Federal Home Loan Mortgage Corporation		1,906		1,906
Federal National Mortgage Association		4,446		4,446
Other		13,729	45	13,774
Total Mortgage-Back Securities	$	$ 51,069	$ 45	$ 51,114
Total assets	$	$ 51,069	$ 738	$ 51,807

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	Fair Value Measurements at March 31, 2010, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	(in thousands)			
Assets:				
Mortgage servicing rights	$	$	$ 721	$ 721
Investment securites:				
Available for sale:				
U.S. Government Agency Securities	$	$ 1,484	$	$ 1,484
Residential Mortgage-Back Securities		41,181		41,181
Other		244	141	385
Total available for sale	$	$ 42,909	$ 141	$ 43,050
Total assets	$	$ 42,909	$ 862	$ 43,771

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, 2010 and March 31, 2010.

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:

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 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 MSR is not available. Therefore, MSR 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 rate.

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.

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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, 2010 and 2009:

(in thousands)	Mortgage Servicing Rights	Securities Available for Sale
Beginning balance, March 31, 2010	$ 721	$ 45
Activities:		
Unrealized gain (loss)	(28)	
Ending balance, December 31, 2010	$ 693	$ 45

(in thousands)	Mortgage Servicing Rights	Securities Available for Sale
Beginning April 1, 2009	$ 451	$ 45
Additions	177	
Unrealized gain	52	
Ending balance, December 31, 2009	$ 680	$ 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, 2010 and March 31, 2010 and that are included in the Company s Consolidated Statements of Financial Condition as these dates:

	Fair Value Measurements at December 31, 2010, 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
Held For Sale Loans	$	$ 1,700	$	$ 1,700
Certain impaired loans	$	$ 44,447	$	$ 44,447

	Fair Value Measurements at March 31, 2010, Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable	Total Fair

(in thousands)	(Level 1)	(Level 2)	Inputs (Level 3)	Value
Certain impaired loans	$	$ 23,487	$	$ 23,487

The valuation methodology for loans held for sale for the period ended December 31, 2010 was based upon an offered purchase price.

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, 2010 and March 31, 2010 are as follows (in thousands):

	December 31, 2010		March 31, 2010	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial Assets:				
Cash and cash equivalents	$ 52,700	$ 52,700	$ 38,346	$ 38,346
Securities available-for-sale	51,114	51,114	43,050	43,050
FHLB Stock	3,353	3,353	4,107	4,107
Securities held-to-maturity	19,049	19,560	12,343	12,603
Loans Held For Sale	1,700	1,700		
Loans receivable	580,990	588,777	658,011	664,522
Accrued interest receivable	2,773	2,773	3,539	3,539
Mortgage servicing rights	693	693	721	721
Financial Liabilities:				
Deposits	$ 588,908	$ 568,257	$ 603,249	$ 579,023
Advances from FHLB of New York	50,064	50,382	69,086	69,339
Repurchase agreement	30,000	30,182	30,000	30,180
Other borrowed money	32,471	30,995	32,471	33,325

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.

Securities

The fair values for securities available-for-sale, mortgage-backed securities held-to-maturity and investment 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.

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.

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Loans held-for-sale

The valuation methodology for loans held for sale for the period ended December 31, 2010 was based upon an offered purchase price.

Mortgage servicing rights

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

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, 2010 and March 31, 2010. 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 Holding Company s subsidiary, Carver Statutory Trust I, is not consolidated with Carver Bancorp Inc. for financial reporting purposes as Carver does not have the power to direct the activities that most significantly impact its economic performance. 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, 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 Community Development Financial Institutions (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. The Bank was originally awarded $59.0 million of NMTC. In fiscal 2008, the Bank transferred rights to an investor in a NMTC project totaling $19.2 million, of which $19.0 million was a qualified equity investment, and recognized a gain on the transfer of rights of $1.7 million. The Bank was required to maintain a 0.01% interest in the entity with the investor owning the remaining 99.99%. The entity was called CDE-10. For financial reporting purposes, the $19.2 million transfer of rights to an investor in a NMTC project was reflected in the other assets and the non controlling interest sections of the balance sheet as the entity to which the rights were transferred was required to be consolidated under the then existing accounting guidance based on an evaluation of certain contractual arrangements between the Bank and the investor. In fiscal 2009, following certain amendments to the agreement between CCDC and the investor that resulted in a reconsideration event, the Bank deconsolidated the entity for financial statement reporting purposes. However, 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. The maximum possible loss to Carver from such an arrangement is approximately $7.4 million.

At December 31, 2010, Carver has not recorded any liability with respect to this obligation in accordance with accounting guidance related to accounting for contingencies.

With respect to the remaining $40 million of the original NMTC award, the Bank has established various special purpose entities through which its investments in NMTC eligible activities are conducted. As the Bank was exposed to all of the expected losses and residual returns from these investments the Bank is deemed the primary beneficiary. Accordingly, all of these special purpose entities were consolidated in the Bank s Statement of Financial Condition as of December 31, 2010 and 2009 resulting in the consolidation of assets of approximately $39 million and $40 million, respectively. 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. Since Carver continues to be exposed to the majority of the variability associated with the entities, management has determined that Carver continues to be the primary beneficiary of the entities. As a result, the CDEs have been consolidated and the investor s equity investment of $6.7 million has been 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. The maximum possible loss to Carver from such an arrangement is approximately $7.8 million. At December 31, 2010, Carver has not recorded any liability with respect to this obligation in accordance with accounting guidelines related to accounting for contingencies.

In May 2009, the Bank received an additional NMTC award in the amount of $65 million.

In December 2009, the Bank transferred rights to an investor in a NMTC project totaling $10.5 million of the second NMTC award and recognized a gain on the transfer of rights of $0.5 million. The Bank was required to maintain a 0.01% interest in the entity with the investor owning the remaining 99.99%. The entity was called CDE-13. This entity has been reviewed for possible consolidation under the accounting guidance related to variable interest entities and found to not be a consolidating entity for financial statement reporting purposes as Carver does not have the p