CARVER BANCORP INC
Form 10-K
June 30, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended March 31, 2011
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	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
Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	NASDAQ Global Market
(Title of Class)	(Name of each Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No
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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 t hat the registrant was required to submit and post such files). o Yes x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
As of March 31, 2011 there were 2,484,263 shares of common stock of the Registrant outstanding. The aggregate market value of the Registrant's common stock held by non-affiliates, as of September 30, 2010 (based on the closing sales price of $6.15 per share of the registrant's common stock on September 30, 2010) was approximately $15,219,522.

DOCUMENTS INCORPORATED BY REFERENCE:
Portions of registrant's proxy statement for the Annual Meeting of Stockholders for the fiscal year ended March 31, 2011 are incorporated by reference into Part III of this Form 10-K.

CARVER BANCORP, INC.
2011 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

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

- On February 10, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (“Orders”) with the OTS. The OTS issued this Order based upon its findings that the Company is operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it is operating with an excessive level of adversely classified assets and that its earnings are inadequate to augment its capital. The raising of additional capital to address the finding of inadequate capital may dilute the capital holdings of existing shareholders.

- The Orders required the additional capital to be raised by April 30, 2011 or the Company would be required to submit a contingency plan that is acceptable to the OTS. The Company did not raise the additional capital by April 30, 2011 and thus filed the required contingency plan with the OTS. If the contingency plan is acted upon it may result in the sale or unwinding of the Company.

- general economic conditions, either nationally or locally in some or all areas in which business is conducted, or conditions in the real estate or securities markets or the banking industry which could affect liquidity in the capital markets, the volume of loan origination, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses.

- changes in existing loan portfolio composition and credit quality, and changes in loan loss requirements;

- legislative or regulatory changes which may adversely affect the Company's business, including but not limited to the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

- the Company's success in implementing its new business initiatives, including expanding its product line, adding new branches and ATM centers and successfully building its brand image;

- changes in interest rates which may reduce net interest margin and net interest income;

- increases in competitive pressure among financial institutions or non-financial institutions;

- technological changes which may be more difficult to implement or expensive than anticipated;

- changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities which may adversely affect the business;

- changes in accounting principles, policies or guidelines which may cause conditions to be perceived differently;

- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, which may delay the occurrence or non-occurrence of events longer than anticipated;

- the ability to originate and purchase loans with attractive terms and acceptable credit quality;

- the ability to attract and retain key members of management; and
- the ability to realize cost efficiencies.

Any or all of the Company's forward-looking statements in this Annual Report on Form 10-K and in any other public statements that the Company or management makes may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. The forward-looking statements contained in this Annual Report on Form 10-K are made as of the date of this Annual Report on Form 10-K, and the Company assumes no obligation to, and expressly disclaims any obligation to, update these forward-looking statements to reflect actual results, changes in assumptions or changes in other

1

factors affecting such forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements, except as legally required. For a discussion of additional factors that could adversely affect the Company's future performance, see “Item 1A - Risk Factors” and “Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.”

PART I

As used in this Annual Report on Form 10-K, the word “Company” is used to refer to Carver Bancorp Inc. and its consolidated subsidiaries, including Carver Federal Savings Bank (“Carver Federal”).

ITEM 1. BUSINESS.

OVERVIEW

Carver Bancorp, Inc., a Delaware corporation (the “Holding Company”, the “Company” or “Carver”), is the holding company for Carver Federal Savings Bank (“Carver Federal” or the “Bank”), a federally chartered savings bank, and, on a parent-only basis, had minimal results of operations. The Holding Company is headquartered in New York, New York. The Holding Company conducts business as a unitary savings and loan holding company, and the principal business of the Holding Company consists of the operation of its wholly-owned subsidiary, Carver Federal. Carver Federal was founded in 1948 to serve African-American communities whose residents, businesses and institutions had limited access to mainstream financial services. The Bank remains headquartered in Harlem, and predominantly all its nine branches and nine stand-alone 24/7 ATM Centers are located in low- to moderate-income neighborhoods. Many of these historically underserved communities have experienced unprecedented growth and diversification of incomes, ethnicity and economic opportunity, after decades of public and private investment.

Carver Federal is the largest African-American operated bank in the United States. The Bank remains dedicated to expanding wealth enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank's "Outstanding" rating, awarded by the Office of Thrift Supervision following its most recent Community Reinvestment Act (“CRA”) examination in 2009. The examination report noted that 76.1% of Carver's community development lending and 55.4% of Carver's Home-Owners Mortgage Disclosure Act (“HMDA”) reportable loan originations were within low- to moderate-income geographies, which far exceeded peer institutions. The Bank had approximately $709.2 million in assets as of March 31, 2011 and employed approximately 120 employees as of May 31, 2011.

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

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

The Bank's primary market area for deposits consists of the areas served by its nine branches in the Brooklyn, Manhattan and Queens boroughs of New York City. The neighborhoods in which the Bank's branches are located have historically been low- to moderate-income areas. The Bank's primary lending market includes Bronx, Kings, New York and Queens counties in New York City, and lower Westchester County, New York. Although the Bank's branches are primarily located in areas that were historically underserved by other financial institutions, the Bank faces significant competition for deposits and mortgage lending in its market areas. Management believes that this competition had become more intense as a result of increased examination emphasis by federal banking regulators on financial institutions' fulfillment of their responsibilities under the CRA and more recently due to the decline in demand for loans by qualified borrowers. Carver Federal's market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. The Bank's competition for loans comes principally from mortgage banking companies, commercial banks, and savings institutions. The Bank's most direct competition for deposits comes from commercial banks, savings institutions and credit unions. Competition for deposits also comes from money market mutual funds, corporate and government securities funds, and financial intermediaries such as brokerage firms and insurance companies. Many of the Bank's competitors have substantially greater resources and offer a wider array of financial services and products. This combined with competitors' larger presence in the New York market add to the challenges the Bank faces in expanding its current market share and growing its near-term profitability.

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

The Bank formalized its many community focused investments on August 18, 2005, by forming Carver Community Development Corporation ("CCDC"). CCDC oversees the Bank's participation in local economic development and other community-based initiatives, including financial literacy activities. CCDC coordinates the Bank's development of an innovative approach to reach the unbanked customer market in Carver Federal's communities. Importantly, CCDC spearheads the Bank's applications for grants and other resources to help fund these important community activities. In this connection, Carver Federal has successfully competed with large regional and global financial institutions in a number of competitions for government grants and other awards. In June 2006, Carver Federal was selected by the United States Department of Treasury ("US Treasury") to receive an award of $59 million in New Markets Tax Credits, ("NMTC"). In May 2009, Carver Federal won another NMTC award in the amount of $65 million and in February 2011, the Company announced that Carver Federal had been selected to receive a third NMTC award in the amount of $25 million. The NMTC award is used to stimulate economic development in low- to moderate-income communities. The NMTC award enables the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating revitalization of the community, pursuant to the goals of the NMTC program. The NMTC award provides a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. In addition to the tax credit awards recognized, the Company may transfer rights to an investor in a NMTC project and recognize a gain on the transfer of rights. The Company's ability to realize the benefit of the tax credits is dependent upon the Company generating sufficient taxable income. As of March 31, 2011, the 2006 and 2009 awards allocations have been fully utilized in qualifying projects. See item 7 below and the footnotes to the financial statements for additional details on the NMTC activities.

GENERAL

Carver Bancorp, Inc.

The Company is the holding company for Carver Federal and its other active direct subsidiary, Carver Statutory Trust I (the "Trust"), a Delaware trust.

The Trust 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 Trust is not consolidated with Carver Bancorp, Inc. for financial reporting purposes in accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") regarding the consolidation of variable interest entities (formerly FIN 46(R)). Under the Orders, the Company is prohibited from paying dividends without prior OTS approval. Therefore the Company has deferred the debenture interest payments. Prior to receiving the Orders, the Company requested approval from the OTS to make a debenture interest payment and the request was denied.

On October 24, 1994, Carver Federal converted from mutual to stock form and issued 2,314,275 shares of its common stock at a price of $10 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.

On April 5, 2006, the Company entered into a definitive merger agreement to acquire Community Capital Bank ("CCB"), a Brooklyn-based community bank, in a cash transaction valued at $11.1 million, or $40.00 per CCB share. On September 29, 2006, the Bank acquired CCB, with approximately $165.4 million in assets and two branches. The Bank incurred an additional $0.9 million in transaction costs related to the acquisition. The acquisition of CCB and its award-winning small business lending platform has expanded the Company's ability to capitalize on substantial growth in the small business market. The Company continues to evaluate acquisition opportunities as part of its strategic objective for long-term growth.

The principal business of the Holding Company consists of the operation of its wholly owned subsidiary, the Bank. The Holding Company's executive offices are located at the home office of the Bank at 75 West 125th Street, New York, New York 10027. The Holding Company's telephone number is (718) 230-2900.

Carver Federal Savings Bank

Carver Federal was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally chartered mutual savings and loan association, at which time it obtained federal deposit insurance and became a member of the Federal Home Loan Bank of New York (the “FHLB-NY”). Carver Federal was founded as an African- and Caribbean-American operated institution to provide residents of underserved communities the ability to invest their savings and obtain credit. Carver Federal Savings and Loan Association converted to a federal savings bank in 1986 and changed its name at that time to Carver Federal Savings Bank. None of the Bank's employees are a member of a collective bargaining agreement, and the Bank considers its relations with employees to be satisfactory.

On March 8, 1995, Carver Federal formed CFSB Realty Corp. as a wholly-owned subsidiary to hold real estate acquired through foreclosure pending eventual disposition. At March 31, 2011, this subsidiary had $0.6 million in total assets and a minimal net operating loss. During the fourth quarter of the fiscal year ended March 31, 2003, Carver Federal formed Carver Asset Corporation (“CAC”), a wholly-owned subsidiary which qualifies as a real estate investment trust (“REIT”) pursuant to the Internal Revenue Code of 1986, as amended. This subsidiary may, among other things, be utilized by Carver Federal to raise capital in the future. As of March 31, 2011, CAC owned mortgage loans carried at approximately $81.2 million and total assets of $129.8 million. On August 18, 2005, Carver Federal formed CCDC, a wholly-owned community development entity, to facilitate and develop innovative approaches to financial literacy, address the needs of the unbanked and participate in local economic development and other community-based activities. As part of its operations, CCDC monitors the portfolio of investments related to NMTC awards and makes application for additional awards.

Available Information

The Company makes available on or through its internet website, http://www.carverbank.com, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. Such reports are available free of charge and as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (“SEC”). The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street N.E. Washington D.C. 20549. Information may be obtained on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including the Company, at http://www.sec.gov.

In addition, certain other basic corporate documents, including the Company's Corporate Governance Principles, Code of Ethics, Code of Ethics for Senior Financial Officers and the charters of the Company's Finance and Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee and the date of the Company's annual meeting are posted on the Company's website. Printed copies of these documents are also available free of charge to any stockholder who requests them. Stockholders seeking additional information should contact the Corporate Secretary's office by mail at 75 West 125th Street, New York, New York 10027 or by e-mail at corporatesecretary@carverbank.com. The information on the Company's website is not part of this annual report.

Lending Activities

General. Carver Federal's loan portfolio consists primarily of mortgage loans originated by the Bank's lending teams and secured by commercial real estate, multi-family and one-to-four family residential property and construction loans. Substantially all of the Bank's mortgage loans are secured by properties located within the Bank's market area. From time-to-time, the Bank may purchase loans from other financial institutions to achieve loan growth objectives. Loans purchased comply with the Bank's underwriting standards. Under the Orders, the Bank is required to improve its level of adversely classified assets and is restricted from origination commercial real estate ("CRE") loans until it reduces its current concentration of CRE loans.

In recent years, Carver Federal has focused on the origination of commercial real estate loans and multi-family residential loans. These loans generally have higher yields and shorter maturities than one-to-four family residential properties, and include prepayment penalties that the Bank collects if the loans pay in full prior to the contractual maturity. The Bank's increased emphasis on portfolio management and monitoring of the commercial real estate and multi-family residential mortgage loans was required given the increase of the overall level of credit risk inherent in this segment of the Bank's loan portfolio. The greater risk associated with commercial real estate and multi-family residential loans has required the Bank to increase its provisions for loan losses and could require the Bank to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance currently maintained. Carver Federal continually reviews the composition of its mortgage loan portfolio and underwriting standards to manage the risk in the portfolio.

During fiscal 2009, the Bank began to deemphasize the origination of new construction loans and in fiscal 2011 ceased the origination of new construction loans, allowing the outstanding balance of the construction loan portfolio to decline. As security for repayment, the Bank obtains a first lien position on the underlying collateral, and generally obtains personal guarantees.

Construction loans also generally have a term of two years or less. Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions. The greater risk associated with construction loans has required the Bank to increase its provision for loan losses, and could require the Bank to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance the Bank currently maintains. To help mitigate risk, Carver Federal has originated construction loans principally through the Community Preservation Corporation ("CPC"). These loans are targeted toward affordable housing or rental dwelling units that tend to have lower risk profiles compared to other construction loans (discussed below).

Carver Federal's business banking unit was formed in 2006 with the acquisition of CCB, a commercial bank, to focus on loans to businesses located within the Bank's market area. These loans are generally personally guaranteed by the business owners, and may be secured by the assets of the business. The interest rate on these loans is generally an adjustable rate based on a published index, usually the prime rate. These loans, while providing the Bank a higher rate of return, also present a higher level of risk. The greater risk associated with business loans could require the Bank to increase its provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance currently maintained. To date, Carver Federal has incurred some losses in the business loan portfolio, which are mainly related to loans acquired through the CCB acquisition.

Loan Portfolio Composition. Total loans receivable decreased by $90.5 million, or 13.4%, to $582.3 million at March 31, 2011 compared to $672.7 million at March 31, 2010. Carver Federal's total loans receivable as a percentage of total assets decreased to 82.10% at March 31, 2011 compared to 83.8% at March 31, 2010. Non-residential real estate loans, which includes commercial real estate, totaled $243.8 million, or 41.9% of total loans receivable; multi-family loans totaled $123.8 million, or 21.3% of total loans receivable; construction loans (net of committed but undisbursed funds), totaled $78.1 million, or 13.4% of total loans receivable; one-to-four family mortgage loans totaled $82.1 million, or 14.1% of total loans receivable; business loans totaled $53.2 million, or 9.1% of total loans receivable; and consumer loans (credit card loans, personal loans, and home improvement loans) totaled $1.3 million or 0.2% of total loans receivable.

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

	March 31, 2011			March 31, 2010			March 31, 2009			March 31, 2008			March 31, 2007		
	Amount	%		Amount	%		Amount	%		Amount	%		Amount	%	
Gross loans receivable:															
One- to four-family	$82,061	14.1	%	$90,150	13.4	%	$105,771	15.9	%	$127,186	19.4	%	$123,451	20.3	%
Multifamily	123,791	21.3	%	141,702	21.1	%	80,321	12.1	%	78,657	12.0	%	91,877	15.1	%
Non-residential	243,786	41.9	%	259,619	38.6	%	273,595	41.3	%	238,508	36.3	%	203,187	33.4	%
Construction	78,055	13.4	%	111,348	16.6	%	144,318	21.8	%	158,877	24.2	%	137,697	22.6	%
Business	53,248	9.1	%	68,523	10.2	%	57,522	8.7	%	51,424	7.8	%	51,226	8.4	%
Consumer and other (1)	1,349	0.2	%	1,403	0.2	%	1,674	0.3	%	1,728	0.3	%	1,067	0.2	%
Total loans receivable	582,290	100	%	672,745	100	%	663,201	100	%	656,380	100	%	608,505	100	%
Add:															
	120			130			546			725			990		

Premium on loans					
Less:					
Deferred fees and loan discounts	(2,107)	(2,864)	(1,583)	(1,229)	(994)
Allowance for loan losses	(23,147)	(12,000)	(7,049)	(4,878)	(5,409)
Total loans receivable, net	$557,156	$658,011	$663,193	$650,998	$603,092

(1) Includes personal loans

Non-residential Real Estate Lending. Non-residential real estate lending consists predominantly of originating loans for the purpose of purchasing or refinancing office, mixed-use (properties used for both commercial and residential purposes but predominantly commercial), retail and church buildings in the Bank's market area. Mixed use loans are secured by properties which are intended for both residential and business use and are classified as commercial real estate. Non-residential real estate lending entails additional risks compared with one to four family residential and multi-family lending. For example, such loans typically involve large loan balances to single borrowers or groups of related borrowers, and the payment experience on such loans typically is dependent on the successful operation of the commercial property.

In making non-residential real estate loans, the Bank primarily considers the ability of the net operating income generated by the real estate to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and the Bank's lending experience with the borrower. Carver Federal's maximum loan-to-value ("LTV") ratio on non-residential real estate mortgage loans at origination is generally 75% based on the appraised value of the mortgaged property. The Bank generally requires a Debt Service Coverage Ratio ("DSCR") at origination of at least 1.20 on non-residential real estate loans. The Bank also requires the assignment of rents of all tenants' leases in the mortgaged property and personal guarantees may be obtained for additional security from these borrowers.

At March 31, 2011, non-residential real estate mortgage loans totaled $243.8 million, or 41.9% of the total loan portfolio. This balance reflects a year-over-year decrease of $15.8 million, or 6.4% . The decrease in originations in fiscal 2011 is the result of the Company's efforts to reduce its exposure to this segment of the New York and New Jersey real estate market. As of March 31, 2011, Carver Federal is not currently originating new commercial real estate loans.

The Bank offers adjustable rate mortgage ("ARM") loans with interest rate adjustment periods of one to five years and generally for terms of up to 15 years and amortization schedules up to thirty years. Interest rates on ARM loans currently offered by the Bank are adjusted at the beginning of each adjustment period are generally based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, the Bank may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Commercial adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan.

Historically, Carver Federal has been a New York City metropolitan area leader in the origination of loans to churches. At March 31, 2011, loans to churches totaled $53.9 million, or 9% of the Bank's gross loan portfolio. These loans generally have five-, seven-, or ten-year terms with 15-, 20- or 25-year amortization periods, a balloon payment due at the end of the term and generally have no greater than a 70% LTV ratio at origination. The Bank has also provided construction financing for churches and generally provides permanent financing upon completion of construction. There are currently 64 church loans in the Bank's loan portfolio.

Loans secured by real estate owned by faith-based organizations generally are larger and involve greater risks than one-to-four family residential mortgage loans. Because payments on loans secured by such properties are often dependent on voluntary contributions by members of the church's congregation, repayment of such loans may be subject to a greater extent to adverse conditions in the economy. The Bank seeks to minimize these risks in a variety of ways, including reviewing the organization's financial condition, limiting the size of such loans and establishing the quality of the collateral securing such loans. The Bank determines the appropriate amount and type of security for such loans based in part upon the governance structure of the particular organization, the length of time the church has been established in the community and a cash flow analysis to determine the church's ability to service the proposed loan. Carver Federal will obtain a first mortgage on the underlying real property and often requires personal guarantees of key members of the congregation and/or key person life insurance on the pastor. The Bank may also require the church to obtain key person life insurance on specific members of the church's leadership. While asset quality in the church loan category historically has been one of the strongest asset classes, recent economic conditions have produced some delinquencies in this portfolio. Management believes that Carver Federal will remain a leading lender to churches in its market area, however, Carver will continue to conduct disciplined underwriting and maintain focused portfolio management.

Multi-family Real Estate Lending. Traditionally, Carver Federal originates and purchases multi-family loans. Multi-family property lending entails additional risks compared to one-to-four family residential lending. For example, such loans are dependent on the successful operation of such buildings and can be significantly impacted by supply and demand conditions in the market for multi-family residential units. Carver Federal's multi-family loan portfolio decreased $17.9 million in fiscal 2011, or 12.6% to $123.8 million , or 21.3%, of Carver Federal's total loan portfolio at March 31, 2011. As of March 31, 2011, Carver Federal is not currently originating new multi-family loans.

In making multi-family loans, the Bank primarily considers the property's ability to generate net operating income sufficient to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and the Bank's lending experience with the borrower. Carver Federal's multi-family product guidelines generally require that the maximum LTV at origination not exceed 75% based on the appraised value of the mortgaged property on all such loans. The Bank generally requires a debt service coverage ratio at origination of at least 1.20 on multi-family loans, which requires the properties to generate cash flow after expenses and allowances in excess of the principal and interest payment. Carver Federal originates and purchases multi-family loans, which are predominantly adjustable rate loans that generally amortize on the basis of a 15-, 20-, 25- or 30-year period and require a balloon payment after the first five years, or the borrower may have an option to extend the loan for two additional five-year periods. The Bank occasionally originates fixed rate loans with greater than five year terms. Personal guarantees may be obtained for additional security from these borrowers.

To help ensure continued collateral protection and asset quality for the term of multi-family real estate loans, Carver Federal employs a risk-rating system for its loans. All commercial loans, including multi-family real estate loans, are risk-rated internally at the time of origination. Management continually monitors all commercial loans in order to update risk ratings when necessary (see Asset classification and Allowance for loan and lease losses for additional information on asset classification and risk ratings. In addition, to evaluate changes in the credit profile of the borrower and the underlying collateral, an independent consulting firm reviews and prepares a written report for a sample of commercial loan relationships. On a quarterly basis, i) all new/renewed loans greater than $1,000,000, ii) a sampling of loans $100,000 to $999,999, and iii) all criticized and classified loans are reviewed. In addition, on an annual basis, all loans greater than $1,000,000 and a sampling of loans $100,000 to $999,999 are reviewed. Summary reports documenting the loan reviews are then reviewed by management for changes in the credit profile of individual borrowers and the portfolio as a whole.

Construction Lending. The Bank has historically originated or participated in construction loans for new construction and renovation of multi-family buildings, residential developments, community service facilities, churches, and affordable housing programs. The Bank's construction loans generally have adjustable interest rates and are underwritten in accordance with the same standards as the Bank's mortgage loans on existing properties. The loans provide for disbursement in stages as construction is completed. Participation in construction loans may be at various stages of funding. Construction terms are usually from 12 to 24 months. The construction loan interest is capitalized as part of the overall project cost and is funded monthly from the loan proceeds. Borrowers must satisfy all credit requirements that apply to the Bank's permanent mortgage loan financing for the mortgaged property. Carver Federal has additional criteria for construction loans to include an engineer's plan and cost review on all construction budgets with interest reserves for loans in excess of $250,000.

Construction financing generally is considered to involve a higher degree of risk of loss than long term financing on improved and occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the mortgaged property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in project delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value that is insufficient to assure full repayment of such loan. The ability of a developer to sell completed dwelling units will depend on, among other things, demand, pricing, availability of comparable properties and economic conditions. During fiscal 2009, the Bank sought to minimize this risk by limiting construction lending to experienced borrowers in the Bank's market areas, limiting the aggregate amount of outstanding construction loans and imposing a stricter LTV ratio requirement than that required for one-to-four family mortgage loans. Since fiscal 2010, the Bank has ceased new construction lending.

At March 31, 2011, the Bank had $78.1 million (net of $4.4 million of committed but undisbursed funds) in construction loans outstanding, comprising 13.4% of the Bank's gross loan portfolio. The balance at March 31, 2011 reflects a $33.3 million, or 29.9%, decrease over fiscal 2010, consistent with the Bank's cessation of construction lending.Virtually all of the construction loans currently in Carver's loan portfolio comprise participations in loans originated by peer lenders in New York City. The preponderance of these loans, 81%, are underwritten and serviced by the Community Preservation Corporation ("CPC"), a nationally recognized non-profit corporation whose mission is to create affordable housing through new construction and renovation of existing buildings. CPC is sponsored by more than 70 commercial banks, savings institutions and insurance companies. Since its founding in 1974, CPC has been responsible for providing over $7 billion in private and public capital to create approximately 140,000 affordable homes in low and moderate income communities, in New York City, New Jersey and Connecticut.

Consistent with other sponsoring lenders, Carver participates in a portion of an individual CPC-originated loan by purchasing up to 90% of the total loan commitment to a developer. CPC is Carver's agent in servicing the loans on a daily basis, including overseeing construction and collecting payments. However Carver's lending team independently underwrites each participation and loans are approved pursuant to Carver's Loan Policy and underwriting guidelines. Carver's lending team monitors progress in construction and other benchmarks via written reports and meetings with CPC staff, which are supplemented by site visits and direct communications with borrowers.

CPC-sponsored developments provide affordable homes for purchase or rental. Loans for rental developments, when complete, are generally sold to the New York City Pension Fund. Of Carver's portfolio of CPC loans, comprised of 19 loans in the amount of $64.7 million, 16% are for rental developments and 84% are for sale. Most CPC homes are priced to target families at 120% of the median income in New York City, which is approximately $78,300. This segment of the home buying market is very deep and typically resilient, given the expense of New York City living and the pent up demand of families living in public housing and other affordable rental housing, to purchase their first home.

Since the recession in 2008, continued difficult economic conditions have severely tested this previously successful model. Delinquency in the CPC loan portfolio in which Carver participates has increased significantly. At March 31, 2011, the largest contributor to Carver's delinquencies was the CPC portfolio, representing 89% of total construction delinquencies and 42.7% of the non-performing portfolio. The delinquency rate for these loans is 25.4%.

The most significant factors leading to this delinquency was the federal government's decision in 2008 to remove Fannie Mae and Freddie Mac from the secondary market. As a result, loans for developments for which construction was complete could not be paid off because end loans, or mortgages for buyers, were non-existent. Second, the lengthy period in which developers managed the dearth of mortgage loans, severely strained their finances, as they are typically smaller, local developers. Third, the loss of employment in the New York metropolitan area reduced confidence and demand in the home buying population. The slow recovery in the home buying/consumer mortgage business has resulted in an extended time frame for developers to finalize sales and repay their construction loans.

Our strategy to manage this portfolio has been threefold. First, we ceased additional construction lending in fiscal 2010. During fiscal 2011, the construction loan portfolio has been reduced by $28.6 million or 25.5%, through pay offs and other resolutions. Second, we worked with CPC to develop an end loan product to provide mortgage financing for purchasers, if secondary market conditions do not rebound sufficiently. Third we are aggressive participants, along with CPC, in the servicing of each loan.

We currently believe that delinquencies in this portfolio will remain elevated for the foreseeable future.

To help ensure continued collateral protection and asset quality for the term of construction loans, Carver Federal employs a risk-rating system for its loans. All construction loans are risk-rated internally at the time of origination. Management continually monitors all construction loans in order to update risk ratings when necessary (see Asset classification and Allowance for loan and lease losses for additional information on asset classification and risk ratings). In addition, to evaluate changes in the credit profile of the borrower and the underlying collateral, an independent consulting firm reviews and prepares a written report for a sample of construction loan relationships. On a quarterly basis, i) all new/renewed loans greater than $1,000,000, ii) a sampling of loans $100,000 to $999,999, and iii) all criticized and classified loans are reviewed. In addition, on an annual basis, all loans greater than $1,000,000 and a sampling of loans $100,000 to $999,999 are reviewed. Summary reports documenting the loan reviews are then reviewed by management for changes in the credit profile of individual borrowers and the portfolio as a whole.

One-to-four Family Residential Lending. Historically, Carver Federal emphasized the origination and purchase of first mortgage loans secured by one-to-four family properties that serve as the primary residence of the owner. To a much lesser degree, the Bank has made loans to investors that are secured by non-owner occupied one-to-four family properties, although this practice has been discontinued. In the past the Bank has also purchased one-to-four family loans, $316 thousand was purchased in fiscal 2010 compared to no such loans purchased in fiscal 2011 or fiscal 2009. In October 2008, the Bank entered into an arrangement with a third party to originate and underwrite one-to-four family loans for the Bank using Fannie Mae, Freddie Mac or FHA underwriting guidelines.

Carver Federal offers both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and a general maximum loan amount of $1.4 million. Approximately 46% of the one-to-four family residential mortgage loans maturing in greater than one year at March 31, 2011 were adjustable rate and approximately 54% were fixed-rate. One-to-four family residential real estate loans decreased $8.0 million to $82.1 million, or 14.1%, of the gross loan portfolio at March 31, 2011 compared to March 31, 2010. During fiscal 2009 the Bank decreased its emphasis on one-to-four family lending due to more favorable pricing on multi-family residential and commercial real estate lending.

The Bank's lending policies generally limit the maximum loan-to-value (“LTV”) ratio on one-to-four family residential mortgage loans secured by owner-occupied properties to 95% of the lesser of the appraised value or purchase price, with private mortgage insurance required on loans with LTV ratios in excess of 80%. Under certain special loan programs, Carver Federal may originate and sell loans secured by single-family homes purchased by first time home buyers where the LTV ratio may be up to 96.5%.

Carver Federal's fixed-rate, one-to-four family residential mortgage loans are underwritten in accordance with applicable secondary market underwriting guidelines and requirements for sale. From time to time the Bank has sold such loans to Fannie Mae, the State of New York Mortgage Agency (“SONYMA”) and other third parties. Loans are generally sold with limited recourse on a servicing retained basis except to SONYMA where the sale is made with servicing released. Carver Federal uses several servicing firms to sub-service mortgage loans, whether held in portfolio or sold with the servicing retained. At March 31, 2011, the Bank, through its sub-servicers, serviced $42.0 million in loans for FNMA and $5.7 million for other third parties.

Carver Federal offers one-year, three-year, five/one-year and five/three-year adjustable-rate one-to-four family residential mortgage loans. These loans are generally retained in Carver Federal's portfolio although they may be sold in the secondary market. They are indexed to the weekly average rate on one-year, three-year and five-year U.S. Treasury or Federal Home Loan Bank ("FHLB") securities, respectively, adjusted to a constant maturity (usually one year), plus a margin. The rates at which interest accrues on these loans are adjustable every one, three or five years, generally with limitations on adjustments of two percentage points per adjustment period and six percentage points over the life of a one-year adjustable-rate mortgage and four percentage points over the life of three-year and five-year adjustable-rate mortgages.

The retention of adjustable-rate loans in Carver Federal's portfolio helps reduce Carver Federal's exposure to increases in prevailing market interest rates. However, there are credit risks resulting from potential increases in costs to borrowers in the event of upward re-pricing of adjustable-rate loans. It is possible that during periods of rising interest rates, the risk of default on adjustable-rate loans may increase due to increases in interest costs to borrowers. Although adjustable-rate loans allow the Bank to increase the sensitivity of its interest-earning assets to changes in interest rates, the extent of this interest rate sensitivity is limited by periodic and lifetime interest rate adjustment limitations. Accordingly, there can be no assurance that yields on the Bank's adjustable-rate loans will fully adjust to compensate for increases in the Bank's cost of funds. Adjustable-rate loans increase the Bank's exposure to decreases in prevailing market interest rates, although decreases in the Bank's cost of funds would tend to offset this effect.

In the past, the Bank originated a limited amount of subprime loans; however, such lending has been discontinued. At March 31, 2011, the Bank had $8.2 million in subprime loans, or 1%, of its total loan portfolio of which $3.9 million are non-performing loans.

Business Loans. Carver Federal's small business lending portfolio decreased by $15.3 million to $53.2 million, or 22.3%, of the Bank's gross loan portfolio in Fiscal 2011. Carver Federal provides revolving credit and term loan facilities to small businesses with annual sales of approximately $1 million to $25 million in manufacturing, services and wholesale segments. Business loans are typically personally guaranteed by the owners, and may also be secured by additional collateral, including real estate, equipment and inventory. Included in commercial business loans are loans made to owners of New York City taxi medallions. These loans, which totaled $4.7 million at March 31, 2011, are secured through first liens on the taxi medallions. Carver Federal originates taxi medallion loans in an amount up to 80% of the value of the taxi medallion.

Consumer and other Loans. At March 31, 2011, the Bank had $1.3 million in consumer and other loans, or 0.2%, of the Bank's gross loan portfolio. At March 31, 2011, $1.2 million, or 93.8%, of the Bank's consumer loans were unsecured loans, consisting of consumer loans, other than loans secured by savings deposits, and $0.1 million or 6.2%, were secured by savings deposits.

Consumer loans generally involve more risk than first mortgage loans. Collection of a delinquent loan is dependent on the borrower's continuing financial stability, and thus is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Further, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered. These loans may also give rise to claims and defenses by a borrower against Carver Federal and a borrower may be able to assert claims and defenses against Carver Federal which it has against the seller of the underlying collateral. In underwriting unsecured consumer loans other than secured credit cards, Carver Federal considers the borrower's credit history, an analysis of the borrower's income, expenses and ability to repay the loan and the value of the collateral. The underwriting for secured credit cards only takes into consideration the value of the underlying collateral. See "-Asset Quality-Non-performing Assets."

Loan Processing. Carver Federal's loan originations are derived from a number of sources, including referrals by realtors, builders, depositors, borrowers and mortgage brokers, as well as walk-in and telephone customers. Loans are originated by the Bank's personnel who receive a base salary, commissions and other incentive compensation. Real estate, business and unsecured loan applications are forwarded to the Bank's Lending Department for underwriting pursuant to standards established in Carver Federal's loan policy. The underwriting and loan processing for residential one-to-four family loans are performed by an outsourced third party loan originator using lending standards established by the Bank.

A commercial real estate loan application is completed for all multi-family and non-residential properties which the Bank finances. Prior to loan approval, the property is inspected by a loan officer. As part of the loan approval process, consideration is given to an independent appraisal, location, accessibility, stability of the neighborhood, environmental assessment, personal credit history of the applicant(s) and the financial capacity of the applicant(s). Business loan applications are completed for all business loans. Most business loans are secured by real estate, personal guarantees, and/or guarantees by the United States Small Business Association (“SBA”) or Uniform Commercial Code (“UCC”) filings. The loan approval process considers the credit history of the applicant, collateral, cash flow and purpose and stability of the business.

Upon receipt of a completed loan application from a prospective borrower, a credit report and other verifications are ordered to confirm specific information relating to the loan applicant's income and credit standing. It is the Bank's policy to obtain an appraisal of the real estate intended to secure a proposed mortgage loan from an independent appraiser approved by the Bank.

It is Carver Federal's policy to record a lien on the real estate securing the loan and to obtain a title insurance policy that insures that the property is free of prior encumbrances. Borrowers must also obtain hazard insurance policies prior to closing and, when the property is in a flood plain as designated by the Department of Housing and Urban Development, paid flood insurance policies must be obtained. Most borrowers are also required to advance funds on a monthly basis, together with each payment of principal and interest, to a mortgage escrow account from which the Bank makes disbursements for items such as real estate taxes and hazard insurance. Written confirmation of the guarantee for SBA loans and evidence of the UCC filing is also required.

Loan Approval. Except for real estate and business loans in excess of $6.0 million and $3.0 million, respectively, mortgage and business loan approval authority has been delegated by the Bank's Board to the Board's Asset Liability and Interest Rate Risk Committee. The Asset Liability and Interest Rate Risk Committee has delegated to the Bank's Management Loan Committee, which consists of certain members of executive management, loan approval authority for loans up to and including $3.0 million for real estate loans, $2.0 million for business loans secured by real estate and $1.0 million for all other business loans. Any loan that represents an exception to the Bank's lending policies must be ratified by the next higher approval authority. Real estate and business loans above $6.0 million and $3.0 million, respectively, must be approved by the full Board. Purchased loans are subject to the same approval process as originated loans. One-to-four family mortgage loans that conform to FNMA standards and limits may be approved by the outsourced third party loan originator. Under the Orders, the Bank is restricted from originating new CRE loans. Additionally, extensions or refinancing of existing CRE loans require regulatory approval.

Loans-to-One-Borrower. Under the loans-to-one-borrower limits of the Office of Thrift Supervision (“OTS”), with certain limited exceptions, loans and extensions of credit to a single or related group of borrowers outstanding at one time generally may not exceed 15% of the unimpaired capital and surplus of a savings bank. See “-Regulation and Supervision-Federal Banking Regulation-Loans-to-One-Borrower Limitations.” At March 31, 2011, the maximum loans-to-one-borrower under this test would be $7.5 million and the Bank had no relationships that exceeded this limit.

Loan Sales. Originations of one-to-four family real estate loans are generally made on properties located within the New York City metropolitan area, although Carver Federal occasionally funds loans secured by property in other areas. All such loans, however, satisfy the Bank's underwriting criteria regardless of location. The Bank continues to offer one-to-four family fixed-rate mortgage loans in response to consumer demand but requires that such loans satisfy applicable secondary market guidelines of FNMA, SONYMA or other third-party purchaser to provide the opportunity for subsequent sale in the secondary market as desired to manage interest rate risk exposure.

Loan Originations and Purchases. Loan originations, including loans originated for sale, were $28.6 million in fiscal 2011 compared to $108.4 million in fiscal 2010. In prior years, the Bank increased its loan production of non-residential commercial real estate and multi-family lending, including those in construction, to take advantage of higher yields and better interest rate risk characteristics. However, due to the downturn in the real estate market and the economy in general, the Bank has curtailed non-owner occupied commercial real estate and construction lending given the additional risks associated with these products. The Bank purchased $10.8 million in loans during fiscal 2010 compared to no loans purchased for fiscal 2011 and fiscal 2009.

The following table sets forth certain information with respect to Carver Federal's loan originations and advances, purchases and sales for the fiscal years ended March 31, (in thousands):

11

	2011 Amount	Percent		2010 Amount	Percent		2009 Amount	Percent	
Loans Originated:									
One-to-four family	$3,129	10.96	%	$3,477	2.92	%	$10,861	7.17	%
Multi-family	700	2.45	%	18,678	15.67	%	21,019	13.88	%
Non-residential	3,159	11.06	%	42,868	35.97	%	57,785	38.16	%
Construction	4,902	17.16	%	13,752	11.54	%	38,471	25.40	%
Business	16,318	57.13	%	29,368	24.64	%	22,891	15.12	%
Consumer and others (1)	353	1.24	%	277	0.23	%	405	0.27	%
Total loans originated	28,561	100.00	%	108,420	90.97	%	151,432	100.00	%
Loans purchased (2)	—	—	%	10,760	9.03	%	—	—	%
Total loans originated and purchased	28,561	100.00	%	119,180	100.00	%	151,432	100.00	%
Loans sold (3)	(3,335)			(3,370)			(10,291)		
Net additions to loan portfolio	$25,226			$115,810			$141,141		

(1) Comprised of personal loans.
(2) Comprised of one-to-four family residential, non-residential and multifamily mortgage loans and business loans.
(3) Comprised of primarily one-to-four family mortgage loans.

Loans purchased by the Bank entail certain risks not necessarily associated with loans the Bank originates. The Bank's purchased loans are generally acquired without recourse, with certain exceptions related to the seller's compliance with representations and warranties, and in accordance with the Bank's underwriting criteria for originations. In addition, purchased loans have a variety of terms, including maturities, interest rate caps and indices for adjustment of interest rates, that may differ from those offered at that time by the Bank. The Bank initially seeks to purchase loans in its market area, however, the Bank may purchase loans secured by property secured outside its market area to meet its financial objectives. The market areas in which the properties that secure the purchased loans are located may differ from Carver Federal's market area and may be subject to economic and real estate market conditions that may significantly differ from those experienced in Carver Federal's market area. There can be no assurance that economic conditions in these out-of-state markets will not deteriorate in the future, resulting in increased loan delinquencies and loan losses among the loans secured by property in these areas.

In an effort to reduce risks, the Bank has sought to ensure that purchased loans satisfy the Bank's underwriting standards and do not otherwise have a higher risk of collection or loss than loans originated by the Bank. A review of each loan is conducted prior to purchase, and the Bank also requires appropriate documentation and further seeks to reduce its risk by requiring, in each buy/sell agreement, a series of warranties and representations as to the underwriting standards and the enforceability of the related legal documents. These warranties and representations remain in effect for the life of the loan. Any misrepresentation must be cured within 90 days of discovery or trigger certain repurchase provisions in the buy/sell agreement.

Loan Maturity Schedule. The following table sets forth information at March 31, 2011 regarding the amount of loans maturing in Carver Federal's portfolio, including scheduled repayments of principal, based on contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Construction loans generally have terms from 12 to 24 months and when coupled with the significant decline in originations over the past two years, the construction loan portfolio has a maturity of less than one year. The table below does not include any estimate of prepayments, which significantly shorten the average life of all mortgage loans and may cause Carver Federal's actual repayment experience to differ significantly from that shown below (in thousands):

	Loan Maturities							
	<1 Yr.	1-2 Yrs.	2-3 Yrs.	3-5 Yrs.	5-10 Yrs.	10-20 Yrs.	20+ Yrs.	Total
Gross loans receivable:								