CARVER BANCORP INC
Form 10-K
June 29, 2015

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, 2015
OR

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

For the transition period from _________ to _________
Commission File Number: 001-13007
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 that the registrant was required to submit and post such files). x Yes o 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, 2015 there were 3,696,087 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, 2014 (based on the closing sales price of $9.11 per share of the registrant's common stock on September 30, 2014) was approximately $33,671,353.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of registrant's proxy statement for the Annual Meeting of Stockholders for the fiscal year ended March 31, 2015 are incorporated by reference into Part III of this Form 10-K.

CARVER BANCORP, INC.
2015 ANNUAL REPORT ON FORM 10-K
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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 Carver Bancorp, Inc.'s (the "Company") financial condition, results of operations and business that are subject to various factors that could cause actual results to differ materially from these estimates. These factors include but are not limited to the following:

- the ability of the Company to comply with its regulatory order, and the effect on operations resulting from restrictions set forth in such regulatory order;

- the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;

- restrictions set forth in the terms of the Series D preferred stock and in the exchange agreement with the United States Department of the Treasury (the "Treasury") that may limit our ability to raise additional capital;

- national and/or local changes in economic conditions, which could occur from numerous causes, including political changes, domestic and international policy changes, unrest, war and weather, or conditions in the real estate, securities markets or the banking industry, which could affect liquidity in the capital markets, the volume of loan originations, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses;

- adverse changes in the financial industry and the securities, credit, national and local real estate markets (including real estate value);

- changes in our existing loan portfolio composition (including increases in commercial lending) and credit quality or changes in loan loss requirements;

- changes in the level of trends of delinquencies and write-offs and in our allowance and provision for loan losses;

- legislative or regulatory changes that may adversely affect the Company’s business, including but not limited to the impact of the Dodd-Frank Wall Street Reform, the JOBS Act, the Consumer Protection Act and new capital regulations, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements, regulatory fees and compliance costs, and the resources we have available to address such changes;

- changes in the level of government support of housing finance;

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

- our ability to control costs and expenses;

- risks related to a high concentration of loans to borrowers secured by property located in our market area;

- 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;
- changes in consumer spending, borrowing and savings habits;
- technological changes that may be more difficult to implement or more costly than anticipated;
- changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities, which may adversely affect our business;

- changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies, the Financial Accounting Standards Board could negatively impact the Company’s financial results;
- litigation or regulatory actions, whether currently existing or commencing in the future, which may restrict our operations or strategic business plan;
- the ability to originate and purchase loans with attractive terms and acceptable credit quality; and
- the ability to attract and retain key members of management, and to address staffing needs in response to product demand or to implement business initiatives.

Because forward-looking statements are subject to numerous assumptions, risks and uncertainties, actual results or future events could differ possibly materially from those that the company anticipated in its forward-looking statements. 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 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

ITEM 1. BUSINESS.

OVERVIEW

Carver Bancorp, Inc., a Delaware corporation (the “Company”), is the holding company for Carver Federal Savings Bank (“Carver Federal” or the “Bank”), a federally chartered savings bank. The Company is headquartered in New York, New York. The Company conducts business as a unitary savings and loan holding company, and the principal business of the 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 of its ten branches and four 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 third consecutive "Outstanding" rating, issued by the OCC following its most recent Community Reinvestment Act (“CRA”) examination in December 2012. As of December 2012, approximately 78% of newly originated loans were within Carver's assessment area, and the Bank has demonstrated excellent responsiveness to its assessment area's needs through its community development lending, investing and service activities. The Bank had approximately $676.4 million in assets and employed 129 employees as of March 31, 2015.

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, online bill pay and telephone banking. Carver Federal also offers a suite of products and services for unbanked and underbanked consumers, branded as Carver Community Cash. This includes check cashing, wire transfers, bill payment, reloadable prepaid cards and money orders.

Carver Federal offers loan products covering a variety of asset classes, including commercial, multifamily 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 ten 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 Kings, New York, Bronx 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 has 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. 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 commercial banks, savings institutions and mortgage banking companies. 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 65 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 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, CCDC was selected by the U.S. Department of Treasury, in a highly competitive process, to receive an award of $59 million in New Markets Tax Credits ("NMTC"). CCDC won a second NMTC award of $65 million in May 2009, and a third award of $25 million in August 2011. The NMTC award is used to stimulate economic development in low- to moderate-income communities. The NMTC awards enable 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. NMTC awards provide a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. The credits are allocated over seven years from the time of the qualified investment. Alternatively, the Bank can utilize the award in projects where another investor entity provides funding and receives the tax benefits of the award in exchange for the Bank receiving fee income. As of March 31, 2015, all three award allocations have been fully utilized in qualifying projects. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" and 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 principal business of the Company consists of the operation of its wholly owned subsidiary, the Bank. The Company's executive offices are located at the home office of the Bank at 75 West 125th Street, New York, New York 10027. The 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.

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, 2015, this subsidiary had $2.1 million in total assets. 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, 2015, CAC owned mortgage loans carried at approximately $27.0 million and total assets of $129.2 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.

Carver Statutory Trust I

Carver Statutory 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 wholly owned by Carver Bancorp, Inc. and the sole voting securities of the Trust. The Company has fully and unconditionally guaranteed the Capital Securities along with all obligations of the Trust under the trust agreement relating to the Capital Securities. The Trust is not consolidated with the Company 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 Company's regulatory orders, the Company was prohibited from paying dividends without prior approval from the Office of the Comptroller of the Currency ("OCC"). Therefore, the Company has deferred the debenture interest payments on the prior subordinated debentures and the Trust has deferred distribution payments on the Capital Securities. The OCC lifted its order and determined the Bank is no longer in troubled condition, effective November 3, 2014. The Company has requested approval from the Federal Reserve to reinstate the debenture interest payment. As of March 31, 2015, the request remains pending.

Recapitalization Transaction

On June 29, 2011, the Company completed a private placement of 55,000 shares of the Company's Mandatorily Convertible Non-Voting Participating Preferred Stock, Series C (the "Series C Preferred Stock") to several institutional investors (the "Investors") for an aggregate purchase price of $55.0 million, with net proceeds of approximately $51.4 million.

Effective October 28, 2011, the Series C Preferred Stock converted into:

- an aggregate of 1,208,039 shares of Common Stock, at a conversion price of $8.1765 (which reflects the 1-for-15 reverse stock split that was effective as of October 27, 2011); and
- an aggregate of 45,118 shares of the Company's Convertible Non-Cumulative Non-Voting Participating Preferred Stock, Series D (the "Series D Preferred Stock"), at a ratio of 1:1.

In connection with the private placement, the Company entered into an Exchange Agreement (the "Exchange Agreement") with the U.S. Department of Treasury (the Treasury Department), pursuant to which the Treasury Department agreed to exchange the 18,980 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock") that it held for shares of Common Stock at the same conversion price applicable to the conversion of the Series C Preferred Stock (the "Exchange"). The Exchange was effective October 28, 2011, and the Series B Preferred Stock was exchanged for 2,321,286 shares of Common Stock.

In connection with the private placement and the Exchange, the Company held a meeting of its stockholders on October 25, 2011, at which the stockholders approved the conversion of the Series C Preferred Stock into shares of Series D Preferred Stock and Common Stock; the issuance of the Series D Preferred Stock; the subsequent conversion of the Series D Preferred Stock into shares of Common Stock in the event of certain transfers; the exchange of the Series B Preferred Stock for Common Stock; and an amendment of the Company's certificate of incorporation that permits the Treasury Department to vote shares of Common Stock that it holds in excess of 10% of the Company's outstanding Common Stock. In addition, the stockholders approved a 1-for-15 reverse stock split pursuant to which each 15 shares of the Company's Common Stock would be converted into one share of Common Stock. The 1-for-15 reverse stock split was effective as of October 27, 2011, resulting in a reduction in the number of outstanding shares of the Company's Common Stock from 2,510,238 to 166,975, an increase of the conversion price of the Series C Preferred Stock and the Series D Preferred Stock and the exchange ratio of the Series B Preferred Stock from $0.5451 to $8.1765, and a corresponding decrease in the number of shares of Common Stock issued to the Investors and the Treasury Department.

Personnel

At fiscal year end 2015, the Company had 129 employees. None of the Company's employees are a member of a collective bargaining agreement.

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, 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. Information provided 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, multifamily 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 that comply with the Bank's underwriting standards from other financial institutions or in contiguous market geographies to achieve loan growth objectives.

In recent years, Carver Federal has focused on the origination of commercial real estate loans and multifamily 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 multifamily residential mortgage loans was required given the increase of the overall level of credit risk inherent in this market segment. Due to the overall improvement in the loan portfolio, the Bank has been able to recover provision for loan losses in years 2013 to 2015. However, the greater risk associated with commercial real estate and multifamily residential loans may require 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.

Loan Portfolio Composition. Total loans receivable increased $91.6 million, or 23.5%, to $481.5 million at March 31, 2015 compared to $389.8 million at March 31, 2014. Carver Federal's total loans receivable as a percentage of total assets increased to 71.2% at March 31, 2015 compared to 60.9% at March 31, 2014. Commercial real estate loans totaled $186.4 million, or 38.7% of total loans receivable at March 31, 2015 compared to $198.8 million, or 51.0% of total loans receivable at March 31, 2014; one-to-four family mortgage loans totaled $125.0 million, or 26.0% of total loans receivable at March 31, 2015 compared to $111.2 million, or 28.5% at March 31, 2014; multifamily loans totaled $93.8 million, or 19.5% of total loans receivable at March 31, 2015 compared to $47.4 million, or 12.2% at March 31, 2014; business loans totaled $70.7 million, or 14.7% of total loans receivable at March 31, 2015 compared to $27.1 million, or 7.0% at March 31, 2014; construction loans at March 31, 2015 and March 31, 2014 (net of committed but undisbursed funds), totaled $5.1 million, or 1.1% and 1.3%, respectively, of total loans receivable; and consumer loans (credit card loans, personal loans, and home improvement loans) totaled $434 thousand or 0.09% of total loans receivable at March 31, 2015, compared to $138 thousand, or 0.04% at March 31, 2014.

The following is a summary of loans receivable, net of allowance for loan losses as of:

	March 31, 2015		March 31, 2014		March 31, 2013		March 31, 2012		March 31, 2011	
$ in thousands	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Gross loans receivable:										
One-to-four family	$125,020	26.0 %	$111,220	28.5 %	$73,625	19.8 %	$66,313	16.0 %	$82,061	14.1 %
Multifamily	93,780	19.5	47,399	12.2	56,427	15.2	78,859	19.0	123,791	21.3
Commercial real estate	186,443	38.7	198,808	51.0	203,813	54.9	207,505	50.0	243,786	41.9
Construction	5,107	1.1	5,100	1.3	1,228	0.3	16,471	4.0	78,055	13.4
Business	70,679	14.7	27,149	7.0	35,795	9.6	44,424	10.7	53,248	9.1
Consumer and other [1]	434	0.1	138	—	247	0.1	1,258	0.3	1,349	0.2
Total loans receivable	$481,463	100.0%	$389,814	100.0%	$371,135	100.0%	414,830	100.0%	582,290	100.0%
Add:										
Premium on loans	2,233		957		728		137		120	
Less:										
Deferred fees and loan discounts, net	(503)		(815)		(1,741)		(2,109)		(2,107)	
Allowance for loan losses	(4,477)		(7,233)		(10,989)		(19,821)		(23,147)	
Total loans receivable, net	$478,716		$382,723		$359,133		$393,037		$557,156	

[1] Includes personal loans

One-to-four Family Residential Lending. Carver Federal originates and purchases first mortgage loans secured by one-to-four family properties that serve as the primary residence of the owner. In fiscal 2015, the Bank purchased $26.1 million one-to-four family loans compared to $55.5 million purchased in fiscal 2014. To a much lesser degree, the Bank has made loans to investors that are secured by non-owner occupied one-to-four family properties. Approximately 15.3% of the one-to-four family residential mortgage loans maturing in greater than one year at March 31, 2015 were adjustable rate and approximately 84.7% were fixed-rate. One-to-four family residential real estate loans increased $13.8 million, or 12.4%, to $125.0 million at March 31, 2015 compared to $111.2 million at March 31, 2014.

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 a servicing firm to sub-service mortgage loans, whether held in portfolio or sold with servicing retained. At March 31, 2015, the Bank, through its sub-servicer, serviced $27.5 million in loans for FNMA and $2.9 million for other third parties. The Bank has recorded $210 thousand in related mortgage servicing rights.

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 repricing 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.

The Bank previously originated or purchased a limited amount of subprime loans (which are defined as those loans which have FICO scores of 660 or less). At March 31, 2015, the Bank had $9.5 million in subprime loans, or 2.0%, of its total loan portfolio of which $959 thousand are non-performing loans.

Multifamily Real Estate Lending. Traditionally, Carver Federal originates and purchases multifamily loans. Multifamily 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 multifamily residential units. Carver Federal's multifamily real estate loan portfolio increased $46.4 million, or 97.9%, to $93.8 million in fiscal 2015, or 19.5% of Carver Federal's total loan portfolio at March 31, 2015.

In making multifamily real estate 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 multifamily real estate 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 multifamily real estate 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 multifamily real estate loans, which are predominantly adjustable rate loans that generally amortize on the basis of a 15-, 20-, or 25- year period and require a balloon payment after the first five years, or the borrower may have an option to extend the loan for additional 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 multifamily real estate loans, Carver Federal employs a risk rating system for its loans. All commercial loans, including multifamily 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 assist the Bank in evaluating 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 $500,000, 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 $500,000 and a sampling of loans $100,000 to $499,999 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.

Commercial Real Estate Lending. Commercial 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 that are intended for both residential and business use and are classified as commercial real estate. Although Carver has experienced favorable loss history associated with commercial real estate loans, these loans may entail additional risks compared with one-to-four family residential and multifamily lending. For example, such loans typically involve larger 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 commercial 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 commercial real estate mortgage loans at origination is generally 75% based on the latest appraised value of the mortgaged property. The Bank generally requires a debt service coverage ratio ("DSCR") at origination of at least 1.25 on commercial 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, 2015, commercial real estate mortgage loans totaled $186.4 million, or 38.7% of the total loan portfolio. This balance reflects a year-over-year decrease of $12.4 million, or 6.2%.

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 30 years. Interest rates on ARM loans currently offered by the Bank are adjusted at the beginning of each adjustment period and generally are 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, 2015, loans to churches totaled $13.5 million, or 2.8% 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 18 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 higher delinquencies in this portfolio. While management believes that Carver Federal will remain a leading lender to churches in its market area, Carver will continue to conduct disciplined underwriting and maintain focused portfolio management.

Construction Lending. The Bank has historically originated or participated in construction loans for new construction and renovation of multifamily 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 including an engineer's plan and periodic cost reviews on all construction budgets 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 2012, 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.

At March 31, 2015, the Bank had $5.1 million in construction loans outstanding, comprising 1.1% of the Bank's gross loan portfolio.

Business Loans. Carver Federal's small business lending portfolio increased $43.5 million to $70.7 million, or 14.7%, of the Bank's gross loan portfolio in fiscal 2015. 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.

Consumer and other Loans. At March 31, 2015, the Bank had $434 thousand in consumer and other loans, or 0.09%, of the Bank's gross loan portfolio, primarily made up of unsecured loans, consisting of consumer loans, other than loans secured by savings deposits.

Consumer loans are not typically secured by collateral and therefore involve more risk than first mortgage loans. Collection of a delinquent loan is dependent on the borrower's continuing financial stability and is more likely to be adversely affected by changes in employment, marital status, health and other personal financial factors. Further, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered. These loans may also give rise to claims and defenses by a borrower against Carver Federal, including claims and defenses that the borrower 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 multifamily and non-residential properties that 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 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 Administration (“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, obtain flood insurance. 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 and $1.0 million for all other business loans. 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, FHA and Federal Home Loan Mortgage Corporation (FHLMC), standards and limits may be approved by the outsourced third party loan originator. Under the Bank's Orders (see "Regulation and Supervision" section in Item 1), the Bank was restricted from originating new CRE loans without prior regulatory approval. On December 28, 2011, the OCC provided the Bank's Board, or a committee of the Board, authority to approve origination of CRE loans under certain conditions, which includes a certification that the extension of credit is in the best interest of the Bank.

Loans-to-One-Borrower. Under the loans-to-one-borrower limits of the OCC, 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, 2015, the maximum loans-to-one-borrower under this test is $11.3 million and the Bank had no relationships that exceeded this limit.

Loan Originations and Purchases. Loan originations, including loans originated for sale, were $66.0 million in fiscal 2015 compared to $68.5 million in fiscal 2014. The Bank purchased $85.9 million in loans during fiscal year 2015 compared to $55.7 million during fiscal year 2014.

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	2015 Amount	Percent		2014 Amount	Percent		2013 Amount	Percent	
Loans Originated:									
One-to-four family	$141	0.1	%	$240	0.2	%	$1,130	2.7	%
Multifamily	3,433	2.3	%	8,693	7.0	%	—	—	%
Commercial real estate	52,305	34.4	%	47,957	38.6	%	21,130	49.6	%
Construction	—	—	%	5,100	4.1	%	—	—	%
Business	10,091	6.6	%	5,796	4.7	%	5,764	13.5	%
Consumer and others (1)	—	—	%	664	0.5	%	8	—	%
Total loans originated	65,970	43.4	%	68,450	55.1	%	28,032	65.8	%
Loans purchased (2)	85,873	56.6	%	55,689	44.9	%	14,533	34.1	%
Total loans originated and purchased	151,843	100	%	124,139	100	%	42,565	100	%
Loans sold (3)	—			(20,788)			(27,306)		
Net additions to loan portfolio	$151,843			$103,351			$15,259		

(1) Comprised of personal loans.

(2) Comprised of one-to-four family residential, commercial real estate, multifamily mortgage loans and business loans with a net book value of $85.7 million purchased from a third party and $129 thousand repurchased from FNMA.

(3) Comprised of primarily one-to-four family mortgage loans and commercial loans in 2014 and construction and commercial real estate loans in 2013.

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 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, 2015 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. 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:

Loan Maturities

$ in thousands	<1 Yr.	1-5 Yrs.	5-20+ Yrs.	Total

Gross loans receivable:				
One-to-four family	$327	$4,840	$119,853	$125,020
Multifamily	5,562	46,105	42,113	93,780
Commercial real estate	12,285	96,785	77,373	186,443
Construction	—	5,107	—	5,107
Business	10,525	28,142	32,012	70,679
Consumer	402	28	4	434
Total	$29,101	$181,007	$271,355	$481,463

The following table sets forth as of March 31, 2015, amounts in each loan category that are contractually due after March 31, 2015 and whether such loans have fixed or adjustable interest rates. Scheduled contractual principal repayments of loans do not necessarily reflect the actual lives of such assets. The average life of long-term loans is substantially less than their contractual terms due to prepayments. In addition, due-on-sale clauses in mortgage loans generally give Carver Federal the right to declare a conventional loan due and payable in the event, among other things, that a borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan market rates are higher than rates on existing mortgage loans and tends to decrease when current mortgage loan market rates are lower than rates on existing mortgage loans:

	Due After March 31, 2015		
$ in thousands	Fixed	Adjustable	Total
Gross loans receivable:			
One-to-four family	$105,614	$19,079	$124,693
Multifamily	78,149	10,069	88,218
Commercial real estate	156,941	17,217	174,158
Construction	5,107	—	5,107
Business	41,561	18,593	60,154
Consumer	32	—	32
Total	$387,404	$64,958	$452,362

Asset Quality

General. One of the Bank's key operating objectives continues to be to maintain a high level of asset quality. Through a variety of strategies, including, but not limited to, monitoring loan delinquencies and borrower workout arrangements, the Bank has been proactive in addressing problem loans and non-performing assets.

The underlying credit quality of the Bank's loan portfolio is dependent primarily on each borrower's ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the adequacy of the value of the collateral securing the loan. For non-owner occupied non-residential real estate and multifamily real estate loans, the borrower's ability to pay typically is dependent on rental income, which can be impacted primarily by vacancies and general market conditions. For one-to-four family loans, a borrowers' ability to pay typically is dependent primarily on employment and other sources of income. For owner occupied non-residential real estate, a borrower's ability to pay typically is dependent primarily on the success of the borrower's business. For all of the Bank's loans, a borrower's ability to pay is also impacted by general economic and other factors, such as unanticipated expenditures or changes in the financial markets. Collateral values, particularly real estate values, are also impacted by a variety of factors, including general economic conditions, demographics, maintenance and collection or foreclosure delays.

Non-performing Assets. Non-performing assets consist of nonaccrual loans, loans held-for-sale, and property acquired in settlement of loans, including foreclosure. When a borrower fails to make a payment on a loan, the Bank and/or its loan servicers take prompt steps to have the delinquency cured and the loan restored to current status. This includes a series of actions such as phone calls, letters, customer visits and, if necessary, legal action. In the event the loan has a guarantee, the Bank may seek to recover on the guarantee, including, where applicable, from the Small Business Administration ("SBA"). Loans that remain delinquent are reviewed for reserve provisions and charge-off. The Bank's collection efforts continue after the loan is charged off, except when a determination is made that collection efforts have been exhausted or are not productive.

The Bank may from time to time agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). Loans modified in a TDR are placed on nonaccrual status until the Bank determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for a minimum of six months. At March 31, 2015, loans classified as a troubled debt restructuring totaled $10.2 million, of which $6.6 million were classified as performing.

The following table sets forth information with respect to Carver Federal's non-performing assets, which includes nonaccrual loans, loans held-for-sale, and property acquired in settlement of loans as of March 31:

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$ in thousands	2015	2014	2013	2012	2011
Loans accounted for on a nonaccrual basis [(1)]:					
Gross loans receivable:					
One-to-four family	$3,664	$2,301	$7,642	$6,988	$15,993
Multifamily	1,053	2,240	423	2,923	6,786
Commercial real estate	2,817	7,024	14,788	24,467	10,078
Construction	—	—	1,230	11,325	37,218
Business	861	993	6,505	8,862	7,289
Consumer	—	1	38	23	42
Total nonaccrual loans	8,395	12,559	30,626	54,588	77,406
Other non-performing assets [(2)]					
Real estate owned	4,341	1,369	2,386	2,183	564
Loans held-for-sale	2,576	5,011	13,107	29,626	9,205
Total other non-performing assets	6,917	6,380	15,493	31,809	9,769
Total non-performing assets [(3)]	$15,312	$18,939	$46,119	$86,397	$87,175
Accruing loans contractually past due > 90 days [(4)]	$—	$—	$—	$—	$—
Non-performing loans to total loans	1.74 %	3.22 %	8.27 %	13.22 %	13.34 %
Non-performing assets to total assets	2.26 %	2.96 %	7.23 %	13.47 %	12.29 %

(1) Nonaccrual status denotes any loan where the delinquency exceeds 90 days past due and in the opinion of management, the collection of contractual interest and/or principal is doubtful. Payments received on a nonaccrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on assessment of the ability to collect on the loan.

(2) Other non-performing assets generally represent loans that the Bank is in the process of selling and has designated held-for-sale or property acquired by the Bank in settlement of loans less costs to sell (i.e. through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value.

(3) Troubled debt restructured loans performing in accordance with their modified terms for less than six months and those not performing in accordance with their modified terms are considered nonaccrual and are included in the nonaccrual category in the table above. TDR loans included in the nonaccrual category above totaled $3.6 million at 2015, $3.0 million at 2014, $16.7 million at 2013, $21 million at 2012, and $23.8 million at 2011. TDR loans that have performed in accordance with their modified terms for a period of at least six months are generally considered performing loans and are not presented in the table above. Performing TDR loans were $4.6 million at 2015, $6.3 million at 2014, $5 million at 2013, $3.5 million at 2012, and $442 thousand at 2011.

(4) Loans 90 days or more past maturity and still accruing, which were not included in the non-performing category, are presented in the above table.

At March 31, 2015, total non-performing assets decreased by $3.6 million, or 19.2%, to $15.3 million, compared to $18.9 million at March 31, 2014 as a result of a decrease in nonaccrual loans, year over year. Nonaccrual loans at March 31, 2015 consist of nineteen one-to-four family loans, eight consumer loans, five multifamily loans, five commercial real estate loans and five small business and SBA loans. The decrease in delinquent loans from the prior year is primarily the result of stabilized, if not improved, economic conditions and Carver's proactive approach to addressing and managing delinquencies. Management believes that there may be losses associated with certain delinquent loans in the future, but also notes that the amount of losses will be reduced by the increased value of properties securing these delinquent loans and the Bank's loan loss reserves. Other non-performing assets at year-end

2015 includes a portfolio of loans held-for sale and real estate owned assets consisting of nine properties foreclosed upon. At March 31, 2015, Carver had 11 loans secured by one-to-four family residential real estate in the process of foreclosure for a total outstanding balance of $1.9 million.

Although we believe that substantially all risk elements at March 31, 2015 have been disclosed, it is possible that for a variety of reasons, including economic conditions, certain borrowers may be unable to comply with the contractual repayment terms on certain real estate and commercial loans. For additional information about certain factors that my affect the future performance of the Company's loan portfolio, please see "Item 1A - Risk Factors" and "Forward Looking Statements."

Asset Classification and Allowances for Losses. Federal regulations and the Bank's policies require the classification of assets on the basis of credit quality on a quarterly basis. An asset is classified as “substandard” if it is non-performing and/or determined to be inadequately protected by the current net worth and paying capacity of the obligor or the current value of the collateral pledged, if any. An asset is classified as “doubtful” if full collection is highly questionable or improbable. An asset is classified as “loss” if it is considered uncollectible, even if a partial recovery could be expected in the future. The regulations also provide for a “special mention” designation, described as assets that do not currently expose a savings institution to a sufficient degree of risk to warrant substandard classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful result in a higher level of allowances for loan losses recorded in accordance with ASC Subtopic 450-20 “Loss Contingencies.” If an asset or portion thereof is classified as a loss, a savings institution must either establish specific allowances for loan losses pursuant to loan impairment guidance in ASC Section 310-10-35 in the amount of the portion of the asset classified as a loss or charge off such amount. Federal examiners may disagree with a savings institution's classifications. If a savings institution does not agree with an examiner's classification of an asset, it may appeal this determination to the OCC Regional Director.

The OCC, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses and lease losses ("ALLL"). The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the ability to collect the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Management is responsible for determining the adequacy of the allowance for loan losses and the periodic provisioning for estimated losses included in the consolidated financial statements. The evaluation process is undertaken on a quarterly basis, but may increase in frequency should conditions arise that would require management's prompt attention, such as business combinations and opportunities to dispose of non-performing and marginally performing loans by bulk sale or any development which may indicate an adverse trend. Although management believes that adequate specific and general loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may become necessary. Federal examiners may disagree with a savings institution as to the appropriate level of the institution's allowance for loan losses. While management believes Carver Federal has established its existing loss allowances in accordance with the ALLL policy, there can be no assurance that regulators, in reviewing Carver Federal's assets, will not require Carver Federal to increase its loss allowance, thereby negatively affecting Carver Federal's reported financial condition and results of operations. For additional information regarding Carver Federal's ALLL policy, refer to Note 2 of Notes to Consolidated Financial Statements, “Summary of Significant Accounting Policies.”

The Board has designated the Internal Asset Review Committee of management to perform a review on a quarterly basis of the Bank's asset quality, establish general and specific allowances, determine loan classifications and submit their report to the Board for review. Carver Federal's methodology for establishing the allowance for loan losses takes into consideration probable losses that have been identified in connection with specific loans as well as losses that have not been identified but can be expected to occur. Further, management reviews the ratio of allowances to total loans and recommends adjustments to the level of allowances accordingly. Although management believes it uses the best information available to make determinations with respect to the allowances for losses, future adjustments may be necessary if economic conditions differ from the economic conditions in the assumptions used in making the initial determinations, or if circumstances pertaining to individual loans change, or new information pertaining to individual loans or the loan portfolio is identified. The Bank has a centralized loan servicing structure that relies upon outside servicers, each of which generates a monthly report of delinquent loans. The Asset Liability and Interest Rate Risk Committees of the Board establish policy relating to internal classification of loans and also provides input to the Internal Asset Review Committee in its review of classified assets. In originating loans, Carver Federal recognizes that credit losses will occur and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan.

It is management's policy to maintain a general allowance for loan losses based on, among other things, regular reviews of delinquencies and loan portfolio quality, character and size, the Bank's and the industry's historical and projected loss experience and current and forecasted economic conditions and certain qualitative factors. In addition, considerable uncertainty exists as to the future improvement or deterioration of the real estate market. See “Lending

Activities-Loan Purchases and Originations." Carver Federal increases its allowance for loan losses by charging provisions for possible losses against the Bank's income. General allowances are established by management on at least a quarterly basis based on an assessment of risk in the Bank's loans, taking into consideration the composition and quality of the portfolio, delinquency trends, current charge-off and loss experience, the state of the real estate market and economic conditions generally. Specific allowances are provided for individual loans, or portions of loans, when ultimate collection is considered improbable by management based on the current payment status of the loan and the fair value or net realizable value of the security for the loan. A loan is deemed impaired when it is probable the Bank will be unable to collect both principal and interest due according to the contractual terms of the loan agreement. Loans the Bank individually classifies as impaired include multifamily mortgage loans, commercial real estate loans, construction loans and business loans which have been classified by the Bank's credit review officer as substandard, doubtful or loss for which it is probable that principal and interest will not be collected in accordance with the loan's contractual terms, and certain loans modified in a troubled debt restructuring. A valuation allowance for collateral dependent loans is established when the current estimated fair value of the property that collateralizes the impaired loan, if any, is less than the recorded investment in the loan. A valuation allowance for cash flow dependent loans is established when based upon a discounted cash flow analysis, impairment is demonstrated.

At the date of foreclosure or other repossession, the Bank transfers the property to real estate acquired in settlement of loans at fair value, less estimated selling costs. Fair value is defined as the amount in cash or cash-equivalent value of other consideration that a real estate parcel would yield in a current sale between a willing buyer and a willing seller. Any amount of cost in excess of fair value is charged off against the allowance for loan losses. Carver Federal records an allowance for estimated selling costs of the property immediately after foreclosure. Subsequent to taking possession of the property, management periodically evaluates the property and an allowance is established if the estimated fair value of the property, less estimated costs to sell, declines. If, upon ultimate disposition of the property, net sales proceeds exceed the net carrying value of the property, a gain on sale of real estate is recorded, providing the Bank did not provide financing for the sale.

The following table sets forth an analysis of Carver Federal's allowance for loan losses for the years ended March 31:

$ in thousands	2015	2014	2013	2012	2011
Balance at beginning of year	$7,233	$10,989	$19,821	$23,147	$12,000
Less Charge-offs:					
One-to-four family	687	2,887	2,103	3,730	827
Multifamily	—	98	226	6,250	5,821
Commercial real estate	—	574	1,148	5,111	798
Construction	—	—	151	5,961	5,607
Business	320	965	2,274	875	2,958
Consumer and other	281	16	1	8	8
Total Charge-offs	$1,288	$4,540	$5,903	$21,935	$16,019
Add Recoveries:					
One-to-four family	380	534	15	469	2
Multifamily	83	31	91	6	—
Commercial real estate	256	—	—	2	2
Construction	—	149	22	1,677	4
Business	816	486	265	113	27
Consumer and other	9	10	5	—	17
Total Recoveries	$1,544	$1,210	$398	$2,267	$52
Net loans (recovered) charged-off	(256)	3,330	5,505	19,668	15,967
Provision for (recovery of) losses	(3,010)	(426)	(3,327)	16,342	27,114
Balance at end of year	$4,479	$7,233	$10,989	$19,821	$23,147
Ratios:					
Net (recoveries) charge-offs to average loans outstanding	(0.06)%	0.86%	1.35%	3.74%	2.54%
Allowance to total loans	0.93%	1.85%	2.97%	4.80%	3.99%
Allowance to non-performing loans	53.35%	57.59%	35.88%	36.31%	29.90%

The following table allocates the allowance for loan losses by asset category at March 31:

	2015		2014		2013		2012		2011	
$ in thousands	Amount	% of Loans to Total Gross Loans	Amount	% of Loans to Total Gross Loans	Amount	% of Loans to Total Gross Loans	Amount	% of Loans to Total Gross Loans	Amount	% of Loans to Total Gross Loans
	$1,989	44.4%	$3,377	46.7%	$3,496	31.8%	$4,305	21.7%	$2,923	12.6%

One-to-four family														
Multifamily	534	11.9	%	308	4.3	%	409	3.7	%	5,409	27.3	%	6,223	26.9	%
Commercial real estate	1,029	23.0	%	1,835	25.4	%	3,297	30.0	%	6,709	33.8	%	3,999	17.3	%
Construction	99	2.2	%	—	—	%	—	—	%	1,532	7.7	%	6,944	30.0	%
Business	813	18.2	%	1,705	23.6	%	3,759	34.2	%	1,786	9.0	%	2,965	12.8	%
Consumer and other	13	0.3	%	8	0.1	%	28	0.3	%	80	0.4	%	93	0.4	%
Total Allowance	$4,477	100	%	$7,233	100	%	$10,989	100	%	$19,821	100	%	$23,147	100	%

The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

Investment Activities

General. 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. Securities are classified into one of 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 March 31, 2015, the Bank had no securities classified as trading. At March 31, 2015, $101.2 million, or 89.5% of the Bank's mortgage-backed and other investment securities, were classified as available-for-sale. The remaining $11.9 million, or 10.5%, were classified as held-to-maturity.

Mortgage-Backed Securities. The Bank has invested in mortgage-backed securities to help achieve its asset/liability management goals and collateral needs. Although mortgage-backed securities generally yield less than whole loans, they present substantially lower credit risk, are more liquid than individual mortgage loans and may be used to collateralize obligations of the Bank. Because Carver Federal receives regular payments of principal and interest from its mortgage-backed securities, these investments provide more consistent cash flows than investments in other debt securities, which generally only pay principal at maturity. Mortgage-backed securities also help the Bank meet certain definitional tests for favorable treatment under federal banking and tax laws. See “Regulation and Supervision-Federal Banking Regulation-Qualified Thrift Lender Test” and “Federal and State Taxation.”

Mortgage-backed securities constituted 5.7% of total assets at March 31, 2015 and 2014. Carver Federal maintains a portfolio of mortgage-backed securities in the form of Government National Mortgage Association (“GNMA”) pass-through certificates, Federal National Mortgage Association (“FNMA”), Federal Home Loan Mortgage Corp (“FHLMC”) participation certificates and commercial mortgage-backed securities. GNMA pass-through certificates are guaranteed as to the payment of principal and interest by the full faith and credit of the United States Government, while FNMA and FHLMC certificates are each guaranteed by their respective agencies as to principal and interest. Mortgage-backed securities generally entitle Carver Federal to receive a prorata portion of the cash flows from an identified pool of mortgages. The cash flows from such pools are segmented and paid in accordance with a predetermined priority to various classes of securities issued by the entity. Carver Federal has also invested in pools of loans guaranteed as to principal and interest by the Small Business Administration (“SBA”).

The Bank seeks to manage interest rate risk by investing in adjustable-rate mortgage-backed securities, which at March 31, 2015, constituted $3.6 million, or 9.2%, of the mortgage-backed securities portfolio. Mortgage-backed securities, however, expose Carver Federal to certain unique risks. In a declining rate environment, accelerated prepayments of loans underlying these securities expose Carver Federal to the risk that it will be unable to obtain comparable yields upon reinvestment of the proceeds. In the event the mortgage-backed security has been funded with an interest-bearing liability with maturity comparable to the original estimated life of the mortgage-backed security, the Bank's interest rate spread could be adversely affected. Conversely, in a rising interest rate environment, the Bank may experience a lower than estimated rate of repayment on the underlying mortgages, effectively extending the estimated life of the mortgage-backed security and exposing the Bank to the risk that it may be required to fund the asset with a liability bearing a higher rate of interest. For additional information regarding Carver Federal's mortgage-backed securities portfolio and its maturities refer to Note 3 of Notes to Consolidated Financial Statements, “Investment Securities.”

Other Investment Securities. In addition to mortgage-backed securities, the Bank also invests in high quality assets such as government and agency obligations, corporate bonds and mutual funds. Carver Federal is permitted under federal law to make certain investments, including investments in securities issued by various federal agencies and state and municipal governments, deposits at the FHLB-NY, certificates of deposit in federally insured institutions, certain bankers' acceptances and federal funds. The Bank may also invest, subject to certain limitations, in commercial paper having one of the two highest investment ratings of a nationally recognized credit rating agency, and certain other types of corporate debt securities and mutual funds (See Note 3 of Notes to Consolidated Financial Statements).

Other Earning Assets. Federal regulations require the Bank to maintain an investment in FHLB-NY stock and a sufficient amount of liquid assets which may be invested in cash and specified securities. For additional information, see “Regulation and Supervision-Federal Banking Regulation-Liquidity.”

Securities Impairment. The Bank’s available-for-sale securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income (loss). Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The fair values of securities in the Bank's portfolio are based on published or securities dealers’ market values and are affected by changes in interest rates. On a quarterly basis, the Bank reviews and evaluates the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. The Bank generally views changes in fair value caused by changes in interest rates as temporary, which is consistent with its experience. Following FASB guidance, the amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Bank will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security’s amortized cost basis and its fair value would be included in other comprehensive income (loss). This guidance also requires additional disclosures about investments in an unrealized loss position and the methodology and significant inputs used in determining the recognition of other-than-temporary impairment. As of fiscal year end 2015 and 2014, the Bank does not have any securities that are classified as having other than temporary impairment in its investment portfolio.

Sources of Funds

General. Deposits are the primary source of Carver Federal's funds for lending and other investment purposes. In addition to deposits, Carver Federal derives funds from loan principal repayments, loan and investment interest payments, maturing investments and fee income. Loan and mortgage-backed securities repayments and interest payments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by prevailing market interest rates, pricing of deposits, competition and general economic conditions. Borrowed money may be used to supplement the Bank's available funds, and from time to time the Bank borrows funds from the FHLB-NY and has borrowed funds through trust preferred debt securities.

Deposits. Carver Federal attracts deposits from consumers, businesses, non-profit organizations and public entities through its ten branches principally from within its market area by offering a variety of deposit instruments, including passbook and statement accounts and certificates of deposit, which range in term from 91 days to five years. Deposit terms vary, principally on the basis of the minimum balance required, the length of time the funds must remain on deposit and the interest rate. Carver Federal also offers Individual Retirement Accounts. Carver Federal's policies are designed primarily to attract deposits from local residents and businesses through the Bank's branches. Carver Federal also holds deposits from various governmental agencies or authorities and corporations.

As of March 31, 2015 the Bank has $38.7 million of reciprocal deposits acquired through its participation in the Certificate of Deposit Account Registry Service (“CDARS”). The CDARS network arranges for placement of Carver Federal's customer funds into certificate of deposit accounts issued by other CDARS member banks. The certificate of deposit accounts are in increments of less than the individual FDIC insurance limit amount, to ensure that both principal and interest are eligible for full FDIC deposit insurance. This allows the Bank to maintain its customer relationship while still providing its customers with FDIC insurance for the full amount of their deposits, up to $50 million per customer. In exchange, Carver Federal receives from other member banks their customers' deposits in like amounts. Depositors are allowed to withdraw funds early, with a penalty, from these accounts. Carver Federal may elect to participate in the program by making or receiving deposits without making or receiving a reciprocal deposit. Prior to the Emergency Economic Stabilization Act of 2008 (“ESSA”), the FDIC deposit insurance limit was $100,000.

As a result of ESSA, this limit was increased to $250,000 through December 31, 2013. On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, which, in part, permanently raised the standard maximum deposit insurance amount to $250,000.

Deposit interest rates, maturities, service fees and withdrawal penalties on deposits are established based on the Bank's funds acquisition and liquidity requirements, the rates paid by the Bank's competitors, current market rates, the Bank's growth goals and applicable regulatory restrictions and requirements. For additional information regarding the Bank's deposit accounts and the related weighted average interest rates paid, and amount and maturities of certificates of deposit in specified weighted average interest rate categories, refer to Note 7 of the Notes to Consolidated Financial Statements, “Deposits.”

Borrowed Funds. While deposits are the primary source of funds for Carver Federal's lending, investment and general operating activities, Carver Federal is authorized to use advances from the FHLB-NY and securities sold under agreements to repurchase (“Repos”) from approved primary dealers to supplement its supply of funds and to meet deposit withdrawal requirements. The FHLB-NY functions as a central bank providing credit for savings institutions and certain other member financial institutions. As a member of the FHLB system, Carver Federal is required to own stock in the FHLB-NY and is authorized to apply for advances. Advances are made pursuant to several different programs, each of which has its own interest rate and range of maturities. Advances from the FHLB-NY are secured by Carver Federal's stock in the FHLB-NY and a pledge of Carver Federal's mortgage loan and mortgage-backed and agency securities portfolios. The Bank takes into consideration the term of borrowed money with the repricing cycle of the mortgage loans on the balance sheet. At March 31, 2015, Carver had $65.0 million in FHLB-NY advances outstanding.

On September 17, 2003, Carver Statutory Trust I issued 13,000 shares, liquidation amount $1,000 per share, of floating rate capital securities. Gross proceeds from the sale of these trust preferred debt securities were $13.0 million and, together with the proceeds from the sale of the trust's common securities, were used to purchase approximately $13.4 million aggregate principal amount of the Company's floating rate junior subordinated debt securities due 2033. The trust preferred debt securities are redeemable quarterly at the option of the Company and have a mandatory redemption date of September 17, 2033. Cash distributions on the trust preferred debt securities are cumulative and payable at a floating rate per annum (reset quarterly) equal to 3.05% over 3-month LIBOR, with a rate at March 31, 2015 of 3.32%. Under the Company's regulatory orders, the Company is prohibited from paying dividends without prior regulatory approval. Therefore the Company has deferred the debenture interest payments and the Trust has deferred distributing the Capital Securities. The Company has requested approval from the Federal Reserve to reinstate the debenture interest payment. As of March 31, 2015, the request remains pending.

REGULATION AND SUPERVISION

Cease and Desist Orders

On February 7, 2011, the Company and the Bank consented to the Office of Thrift Supervision ("OTS") issuing a Bank Order and a Company Order to Cease and Desist (collectively, the “Orders”) against the Company and Bank. Effective July 21, 2011, supervisory authority for the Company and Bank Orders passed to the Board of Governors of the Federal Reserve System (“FRB”) and the Office of the Comptroller of the Currency ("OCC"), respectively. The OCC lifted and removed the C&D Order applicable to the Bank on November 3, 2014 and further determined that the Bank is no longer in "troubled condition" as defined by Section 914 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The C&D Order applicable to the Company (the "FRB C&D Order") under the authority of the FRB remains in effect. The Company has taken actions toward compliance but no assurances can be given that the Company will be able to comply with all provisions of the FRB C&D Order. Failure to comply could result in further regulatory actions and possible civil money penalties to be assessed by the FRB.

The FRB C&D Order requires, among other things, the Company to notify and receive the FRB’s written permission prior to (i) declaring, making or paying any dividends or other capital distributions, or repurchasing or redeeming any capital stock; (ii) incurring, issuing, renewing, repurchasing or rolling over any debt, increasing any current lines of credit or guaranteeing the debt of any entity; (iii) making certain changes to its directors or senior executive officers; (v) entering into, renewing, extending or revising any contractual arrangement related to compensation or benefits with any of its directors or senior executive officers; and (vi) making any golden parachute payments or prohibited indemnification payments. The foregoing description of the FRB C&D Order is qualified in its entirety by reference to the Order issued to the Company. For additional information regarding the Order, please see the Form 8-K filed with the SEC on February 10, 2011.

As stated above, under the FRB C&D Order, the Company is prohibited from paying any dividends without prior regulatory approval. On October 18, 2011, the Company received approval from the Federal Reserve to pay all outstanding dividend payments on the Company's fixed-rate cumulative perpetual preferred stock issued under the

Capital Purchase Program of the Treasury. These payments were made in connection with the Treasury, on October 28, 2011, exchanging the CDCI Series B preferred stock for 2,321,286 shares of Company common stock.

General

The Bank is subject to extensive regulation, examination and supervision by its primary regulator, the OCC. The Bank's deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund (“DIF”), and is a member of the FHLB. The Bank must file reports with the OCC concerning its activities and financial condition, and it must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The Company, as a unitary savings and loan holding company, is subject to regulation, examination and supervision by the FRB and is required to file certain reports with, and otherwise comply with, the rules and regulations of the FRB and of the SEC under the federal securities laws. The OCC and the FDIC periodically perform safety and soundness examinations of the Bank and test compliance with various regulatory requirements. The OCC has primary enforcement responsibility over federally chartered savings banks and has substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements. In addition, the FDIC has the authority to recommend to the Director of the OCC that enforcement action be taken with respect to a particular federally chartered savings bank and, if action is not taken by the Director, the FDIC has authority to take such action under certain circumstances.

The description of statutory provisions and regulations applicable to federally chartered savings banks and their holding companies and of tax matters set forth in this document does not purport to be a complete description of all such statutes and regulations and their effects on the Bank and the Company. Any change in such laws and regulations whether by the OCC, the FDIC, the FRB or through legislation could have a material adverse impact on the Bank and the Company and their operations and stockholders.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act') made extensive changes in the regulation of federal savings banks. Under the Dodd-Frank Act, the OTS was merged into the OCC. Responsibility for the supervision and regulation of federal savings banks was transferred to the OCC, which is the agency that was primarily responsible for the regulation and supervision of national banks. The OCC assumed responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings banks. The transfer of regulatory functions took place on July 21, 2011. At the same time, responsibility for the regulation and supervision of savings and loan holding companies was transferred to the FRB, which previously only supervised bank holding companies. Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the FRB. The Consumer Financial Protection Bureau assumes responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have authority to impose new requirements. However, institutions of less than $10 billion in assets, such as Carver Federal Savings Bank, FSB, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau.

In addition to eliminating the OTS and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, required changes in the way that institutions were assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires that originators of securitized loans retain a percentage of the risk for the transferred loans, directed the FRB to regulate pricing of certain debit card interchange fees, reduced the federal preemption afforded to federal savings associations and contained a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act contained delayed effective dates and/or required the issuance of regulations. As a result, it will be some time before their impact on operations can be assessed by management. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in an increased regulatory burden and higher compliance, operating, and possibly, interest costs for the Bank and the Company.

Capital and Liquidity

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is authorized and, in some cases, required to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank would be placed in one of the following five categories based on the bank's regulatory capital: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized.

The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as a bank's capital decreases within the three undercapitalized categories. All banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized. Generally, a capital restoration plan must be filed with the OCC within 45 days of the date a bank receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion. Under OCC regulations, as amended effective January 1, 2015, a federally chartered savings bank is treated as well-capitalized if its total risk based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 8% or greater, its common equity Tier 1 capital ratio is 6.5% or greater, and its leverage ratio is 5% or greater, and it is not subject to any order or directive by the OCC to meet a specific capital level. In assessing an institution's capital adequacy, the OCC takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions as they deem necessary.

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, required that the OCC and other federal banking agencies revise their risk-based capital standards, with appropriate transition rules, to ensure that they take into account IRR concentration of risk and the risks of non-traditional activities. The OCC regulations do not include a specific IRR component of the risk-based capital requirement. However, the OCC monitors the IRR of individual institutions through a variety of means, including an analysis of the change in net portfolio value ("NPV"). NPV is defined as the net present value of the expected future cash flows of an entity's assets and liabilities and, therefore, hypothetically represents the value of an institution's net worth. The OCC has also used this NPV analysis as part of its evaluation of certain applications or notices submitted by thrift institutions. In addition, OCC Bulletin 2010-1 provides guidance on the management of IRR and the responsibility of boards of directors in that area. The OCC, through its general oversight of the safety and soundness of savings associations, retains the right to impose minimum capital requirements on individual institutions to the extent the institution is not in compliance with certain written guidelines established by the OCC regarding NPV analysis. As discussed below, the OCC has imposed such requirements on Carver Federal.

Carver Federal's Capital Position. Carver Federal, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed minimum requirements and that are consistent with Carver Federal's risk profile. At March 31, 2015, Carver Federal exceeded the capital requirements with a common equity Tier 1 ratio of 15.10%, a Tier 1 leverage ratio of 10.85%, total risk-based capital ratio of 16.78% and a Tier 1 risk-based capital ratio of 15.10%. The OCC has determined that Carver Federal is adequately capitalized.

The OCC and the other federal bank regulatory agencies issued a final rule effective January 1, 2015 that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Carver Federal has chosen to opt-out. Additional constraints are also imposed on the inclusion in regulatory capital of certain mortgage-servicing assets, defined tax assets and minority interests. The rule limits a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. As noted, the final rule became effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. The final rule adjusted the prompt corrective action categories described above to incorporate the increased capital standards and established the "well-capitalized" threshold described above.

Limitation on Capital Distributions. There are various restrictions on a bank's ability to make capital distributions, including cash dividends, payments to repurchase or otherwise acquire its shares and other distributions charged against capital. A savings institution that is the subsidiary of a savings and loan holding company, such as the Bank, must file a notice with the FRB at least 30 days before making a capital distribution. The Bank must also file an application for prior approval with the OCC if the total amount of its capital distributions (including each proposed distribution), for the applicable calendar year would exceed the Bank's net income for that year plus the Bank's retained net income for the previous two years.

The Bank may not pay dividends to the Company if, after paying those dividends, the Bank would fail to meet the required minimum levels under risk-based capital guidelines and the minimum leverage and tangible capital ratio requirements or the OCC notified the Bank that it was in need of more than normal supervision.

The Bank is prohibited from making capital distributions if:

(1) the Bank would be undercapitalized following the distribution;

(2) the proposed capital distribution raises safety and soundness concerns; or

(3) the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

Liquidity. The Bank maintains liquidity levels to meet operational needs. In the normal course of business, the levels of liquid assets during any given period are dependent on operating, investing and financing activities. Cash and due from banks, federal funds sold and repurchase agreements with maturities of three months or less are the Bank's most liquid assets. The Bank maintains a liquidity policy to maintain sufficient liquidity to ensure its safe and sound operations.

Standards for Safety and Soundness

Standards for Safety and Soundness. The OCC has adopted guidelines prescribing safety and soundness standards. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. OCC regulations authorize the OCC to order an institution that has been given notice that it is not satisfying these safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement an accepted compliance plan, the OCC must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized association is subject under the “prompt corrective action” provisions of federal law. If an institution fails to comply with such an order, the OCC may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Enforcement. The OCC has primary enforcement responsibility over the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices.

TARP

The Emergency Economic Stabilization Act of 2008 (“EESA”) was signed into law on October 3, 2008 and authorizes the U.S. Department of the Treasury (“Treasury”) to establish the Troubled Asset Relief Program (“TARP”) to purchase certain troubled assets from financial institutions, including banks and thrifts. Under the TARP, the Treasury may purchase residential and commercial mortgages, and securities, obligations or other instruments based on such mortgages, originated or issued on or before March 14, 2008 that the Secretary of the Treasury determines promotes market stability, as well as any other financial instrument that the Treasury, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, or FRB, determines the purchase of which is necessary to promote market stability. In the case of a publicly-traded financial institution that sells troubled assets into the TARP, the Treasury must receive a warrant giving the Treasury the right to receive nonvoting common stock or preferred stock in such financial institution, or voting stock with respect to which the Treasury agrees not to exercise voting power, subject to certain de minimis exceptions. In addition, all financial institutions that sell troubled assets to the TARP and meet certain conditions will also be subject to certain executive compensation restrictions, which differ depending on how the troubled assets are acquired under the TARP.

On October 14, 2008, the Treasury announced that it would purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the "TARP CPP"), the Treasury made $250 billion of capital available (from the $700 billion authorized by the EESA) to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions are required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP CPP. On January 20, 2009, the Company announced that it completed the sale of $18.98 million in preferred stock to the Treasury in connection with Carver's participation in the TARP CPP. Importantly, Carver is exempt from the requirement to issue a warrant to the Treasury to purchase shares of common stock, as the Bank is a certified Community Development Financial Institution (“CDFI”) conducting most of its depository and lending activities in disadvantaged communities. Therefore, the investment did not dilute common stockholders. As a participant in TARP CPP, the Company was subject to certain obligations currently in effect, such as compensation restrictions, a luxury expenditure policy, the requirement the Company include a “say on pay” proposal in the proxy statement and certain certifications. The Company was also subject to additional restrictions or obligations as may be imposed under TARP CPP for as long as the Company participates in TARP CPP.

The Treasury announced in February 2010 the implementation of the Community Development Capital Initiative (“CDCI”). This new capital program invested lower cost capital in CDFIs that lend to small businesses in the country's most economically depressed communities. CDFI banks and thrifts are eligible to receive investments of capital with an initial dividend rate of 2%, compared to the 5% rate offered under the CPP. CDFIs may apply to receive capital up to 5% of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate increased to 9% after eight years, compared to five years under TARP preferred stock. On August 27, 2010, Carver completed with the Treasury the exchange of the $18.98 million of TARP preferred stock for an equivalent amount of CDCI Series B preferred stock. As stated above, on October 28, 2011, the U.S. Treasury exchanged the CDCI Series B preferred stock for 2,321,286 shares of Company common stock.

Other Supervision and Regulation

Activity Powers. The Bank derives its lending and investment powers from the Home Owners' Loan Act (“HOLA”), as amended, and federal regulations. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities and certain other assets. The Bank may also establish service corporations that may engage in certain activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage. The Bank's authority to invest in certain types of loans or other investments is limited by federal law. These investment powers are subject to various limitations, including (1) a prohibition against the acquisition of any corporate debt security that is not rated in one of the four highest rating categories, (2) a limit of 400% of an association's capital on the aggregate amount of loans secured by non-residential real estate property, (3) a limit of 20% of an association's assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans, (4) a limit of 35% of an association's assets on the aggregate amount of consumer loans and acquisitions of certain debt securities, (5) a limit of 5% of assets on non-conforming loans (loans in excess of the specific limitations of HOLA), and (6) a limit of the greater of 5% of assets or an association's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property.

On October 4, 2006, the OCC and other federal bank regulatory authorities published the Interagency Guidance on Nontraditional Mortgage Product Risks, or the Guidance. The Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among other things, interest-only loans. The Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Guidance indicates that originating interest-only loans with reduced documentation is considered a layering of risk and that institutions are expected to demonstrate mitigating factors to support their underwriting decision and the borrower's repayment capacity. Specifically, the Guidance indicates that a lender should be able to readily document income and a lender may accept a borrower's statement as to the borrower's income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity.

On December 14, 2006, the OTS published guidance entitled “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices,” or the CRE Guidance, to address concentrations of commercial real estate loans in savings associations. The CRE Guidance reinforces and enhances the OCC's existing regulations and guidelines for real estate lending and loan portfolio management, but does not establish specific commercial real estate lending limits. The Bank has evaluated the CRE Guidance to determine its compliance and, as necessary, modified its risk management practices, underwriting guidelines and consumer protection standards. See "Lending Activities and Asset Quality” in Item 1, "Business” for discussions of Carver Federal's loan product offerings and related underwriting standards.

On June 29, 2007, the OCC and other federal bank regulatory agencies issued a final Statement on Subprime Mortgage Lending, or the Statement, to address the growing concerns facing the subprime mortgage market, particularly with respect to rapidly rising subprime default rates that may indicate borrowers do not have the ability to repay adjustable rate subprime loans originated by financial institutions. In particular, the agencies expressed concern in the Statement that current underwriting practices do not take into account that many subprime borrowers are not prepared for “payment shock” and that the current subprime lending practices compound risk for financial institutions. The Statement describes the prudent safety and soundness and consumer protection standards that financial institutions should follow to ensure borrowers obtain loans that they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including an expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower's repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow for a reasonable period of time, typically at least 60 days, for borrowers to refinance prior to the expiration of the initial fixed interest rate period without penalty. The Statement also reinforces the April 17, 2007 Interagency Statement on Working with Mortgage Borrowers, in which the federal bank regulatory agencies encouraged institutions to work constructively with residential borrowers who are financially unable or reasonably expected to be unable to meet their contractual payment obligations on their home loans. In addition, the Statement referenced expanded guidance issued by the agencies by press release dated January 31, 2001. According to the expanded guidance, subprime loans are loans to borrowers which display one or more characteristics of reduced payment capacity. Five specific criteria, which are not intended to be exhaustive and are not meant to define specific parameters for all subprime borrowers and may not match all markets or institutions' specific subprime definitions, are set forth, including having a FICO credit score of 660 or below at the time of origination. Within the Bank's loan portfolio, there are loans to borrowers who had FICO scores of 660 or below at the time of origination. However, as a portfolio lender, the Bank reviews all data contained in borrower credit reports and does not base underwriting decisions solely on FICO scores. The Bank believes the aforementioned loans, when made, were amply collateralized and otherwise conformed to the Bank's prime lending standards. These loans are not a material component of the one-to-four family mortgage loan portfolio.

Carver Federal has evaluated the Guidance, the CRE Guidance and the Statement to determine compliance and, as necessary, modified risk management practices, underwriting guidelines and consumer protection standards. See “Lending Activities - One-to-Four Family Mortgage Lending and Multifamily and Commercial Real Estate Lending” for a discussion of the Bank's loan product offerings and related underwriting standards and “Asset Quality” in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” for information regarding the Bank's interest-only and reduced documentation loan portfolio composition.

Loans-to-One Borrower Limitations. The Bank is generally subject to the same limits on loans-to-one borrower as a national bank. With specified exceptions, the Bank's total loans or extension of credit to a single borrower or group of related borrowers may not exceed 15% of the Bank's unimpaired capital and unimpaired surplus, which does not include accumulated other comprehensive income. The Bank may lend additional amounts up to 10% of its unimpaired capital and unimpaired surplus if the loans or extensions of credit are fully secured by readily marketable collateral. The Bank currently complies with applicable loans-to-one borrower limitations. At March 31, 2015, the Bank's limit on loans-to-one borrower based on its unimpaired capital and surplus was $11.3 million.

Qualified Thrift Lender Test. Under HOLA, the Bank must comply with a Qualified Thrift Lender (“QTL”) test. Under this test, the Bank is required to maintain at least 65% of its “portfolio assets” in certain “qualified thrift investments” on a monthly basis in at least nine months of the most recent twelve-month period. “Portfolio assets” means, in general, an association's total assets less the sum of (a) specified liquid assets up to 20% of total assets, (b) goodwill and other intangible assets and (c) the value of property used to conduct the Bank's business. “Qualified thrift investments” include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities and consumer loans. If the Bank fails the QTL test, it must operate under certain restrictions on its activities. The Dodd-Frank Act made noncompliance potentially subject to agency enforcement action for violation of law. At March 31, 2015, the Bank maintained approximately 96.1% of its portfolio assets in qualified thrift investments. The Bank had also met the QTL test in each of the prior 12 months and was, therefore, a qualified thrift lender.

Branching. Subject to certain limitations, federal law permits the Bank to establish branches in any state of the United States. The authority for the Bank to establish an interstate branch network would facilitate a geographic diversification of the Bank's activities. This authority under federal law and regulations preempts any state law purporting to regulate branching by federal savings associations.

Community Reinvestment. Under CRA, as amended, as implemented by OCC regulations, the Bank has a continuing and affirmative obligation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. CRA does not establish specific lending requirements or programs for the Bank nor does it limit the Bank's discretion to develop the types of products and services that it believes are best suited to its particular community. CRA does, however, require the OCC, in connection with its examination of the Bank, to assess the Bank's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the Bank.

In particular, the system focuses on three tests:

(1) a lending test, to evaluate the institution's record of making loans in its assessment areas;

(2) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses; and

(3) a service test, to evaluate the institution's delivery of banking services through its branches, ATM centers and other offices.

CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received an "Outstanding" CRA rating in its most recent examination conducted in December 2012.

Regulations require that Carver Federal publicly disclose certain agreements that are in fulfillment of CRA. The Company has no such agreements in place at this time.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by federal regulations and by Sections 23A, 23B of the Federal Reserve Act ("FRA"). In general, these transactions must be on terms which are as favorable to the Bank as comparable transactions with non-affiliates. Additionally, certain types of these transactions are restricted to an aggregate percentage of the Bank's capital. Collateral in specified amounts must usually be provided by affiliates to receive loans from the Bank. In addition, OCC regulations prohibit a savings bank from lending to any of its affiliates that is engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to its directors, executive officers, and 10% shareholders ("insiders"), as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (a) be made on terms that are substantially the same as and follow credit underwriting procedures that are not less stringent than those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (b) not exceed certain limitations, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's Board. At March 31, 2015, the Bank had one Regulation O loan of $1.5 million to a director.

Assessment. The OCC charges assessments to recover the cost of examining savings associations and their affiliates. These assessments are based on three components: the size of the association, on which the basic assessment is based; the association's supervisory condition, which results in an additional assessment based on a percentage of the basic assessment for any savings institution with a composite rating of 3, 4, or 5 in its most recent safety and soundness examination; and the complexity of the association's operations, which results in an additional assessment based on a percentage of the basic assessment for any savings association that managed over $1 billion in trust assets, serviced for others loans aggregating more than $1 billion, or had certain off-balance sheet assets aggregating more than $1 billion. For fiscal 2015, Carver paid $329 thousand in regulatory assessments.

Insurance of Deposit Accounts

The FDIC merged the Savings Association Insurance Fund and the Bank Insurance Fund to create the Depositors Insurance Fund (“DIF”) on March 31, 2006. The Bank is a member of the DIF and pays its deposit insurance assessments to the DIF.

Effective January 1, 2007, the FDIC established a new risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under this assessment system, the FDIC assigned an institution to one of four risk categories, with the first category having two sub-categories, based on the institution's most recent supervisory ratings and capital ratios. Base assessment rates ranged from two to four basis points of insured deposits for Risk Category I institutions and were seven basis points for Risk Category II institutions, twenty-five basis points for Risk Category III institutions and forty basis points for Risk Category IV institutions. Base assessment rates were then subject to adjustment based on certain risk factors specified by the FDIC.

The Dodd-Frank Act required the Federal Deposit Insurance Corporation to revise its procedures to base its assessments upon total assets less tangible equity instead of deposits. The FDIC finalized a rule that implemented that change effective April 1, 2011. Among other things, the final rule changed the assessment range (inclusive of potential adjustments) to 2.5 basis points to 45 basis points depending upon the institution's risk category and the applicable adjustments. The Bank's expense for FDIC insurance payments totaled $1.2 million in fiscal year 2015.

The FDIC has authority to further increase insurance assessments and therefore management cannot predict what insurance assessment rates will be in the future. A significant increase in insurance premiums may have an adverse effect on the operating expenses and results of operations of the Bank.

Anti-Money Laundering and Customer Identification

The Bank is subject to federal regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act"). The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the United States Commodity Exchange Act of 1936, as amended.

Title III of the USA PATRIOT Act and the related federal regulations impose the following requirements with respect to financial institutions:

- Perform a risk assessment and establishment of a Board approved policy;

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- Designate a qualified BSA officer;
- Establish an effective training program;
- Establish anti-money laundering programs;
- Establish a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time;
- Establish enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and
- Prohibit correspondent accounts for foreign shell banks and compliance with record keeping obligations with respect to correspondent accounts of foreign banks

In addition, bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on certain corporate applications.

Federal Home Loan Bank System

The Bank is a member of the FHLB-NY, which is one of the twelve regional banks composing the FHLB System. Each regional bank provides a central credit facility primarily for its member institutions. The Bank, as a FHLB-NY member, is required to acquire and hold shares of capital stock in the FHLB-NY in specified amounts. The Bank was in compliance with this requirement with an investment in the capital stock of the FHLB-NY at March 31, 2015 of $3.5 million. Any advances from the FHLB-NY must be secured by specified types of collateral, and all long term advances may be obtained only for the purpose of providing funds for residential housing finance.

FHLB-NY is required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of earnings that the FHLB-NY can pay as dividends to its members and could also result in the FHLB-NY imposing a higher rate of interest on advances to its members. If dividends were reduced, or interest on future FHLB-NY advances increased, the Bank's net interest income would be adversely affected. Dividends from FHLB-NY to the Bank amounted to $88 thousand, $93 thousand and $140 thousand for fiscal years 2015, 2014 and 2013, respectively. The dividend rate paid on FHLB-NY stock at March 31, 2015 was 4.0%.

Under the Gramm-Leach-Bliley Act, as amended (“GLB”), which, among other things, repealed historical restrictions and eliminated many federal and state law barriers to affiliations among banks and securities firms, insurance companies and other financial service providers, membership in the FHLB system is now voluntary for all federally chartered savings banks such as the Bank. GLB also replaced the existing redeemable stock structure of the FHLB system with a capital structure that required each FHLB to meet a leverage limit and a risk-based permanent capital requirement. Two classes of stock are authorized: Class A (redeemable on six months notice) and Class B (redeemable on five years notice). Pursuant to regulations promulgated by the Federal Housing Finance Board, as required by GLB, the FHLB has adopted a capital plan that changed the foregoing minimum stock ownership requirements for FHLB stock. Under the new capital plan, each member of the FHLB has to maintain a minimum investment in FHLB capital stock in an amount equal to the sum of; (1) the greater of $1,000 or 0.20% of the member's mortgage-related assets, and (2) 4.50% of the dollar amount of any outstanding advances under such member's "Advances, Collateral Pledge and Security Agreement" with the FHLB-NY.

Federal Reserve System

FRB regulations require federally chartered savings associations to maintain non-interest-earning cash reserves against their transaction accounts (primarily interest-bearing checking and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between $14.5 million and $103.6 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB between 8% and 14%) against that portion of total transaction accounts in excess of $103.6 million. The first $14.5 million of otherwise reservable balances (subject to adjustment by the FRB) is exempt from the reserve requirements. The Bank is in compliance with the foregoing requirements. Since required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce Carver Federal's interest-earning assets. FHLB System members are also authorized to borrow from the Federal Reserve “discount window,” but FRB regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Privacy Protection

Carver Federal is subject to OCC regulations implementing the privacy protection provisions of GLB. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares “nonpublic personal information” to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require the Bank to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not exempted, the Bank is required to provide its customers with the ability to opt-out of having the Bank share their nonpublic personal information with unaffiliated third parties before they can disclose such information, subject to certain exceptions.

The Bank is subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of GLB. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to insure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer. The Bank has a policy to comply with the foregoing guidelines.

Holding Company Regulation

The Company is a savings and loan holding company regulated by the FRB. As such, the Company is registered with and subject to FRB examination and supervision, as well as certain reporting requirements. The FRB has enforcement authority over the Company and its subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of a subsidiary savings institution.

GLB restricts the powers of new unitary savings and loan holding companies. Unitary savings and loan holding companies that are “grandfathered,” i.e., unitary savings and loan holding companies in existence or with applications filed with the regulator on or before May 4, 1999, such as the Company, retain their authority under the prior law. All other unitary savings and loan holding companies are limited to financially related activities permissible for financial holding companies and certain other activities specified by FRB regulations. GLB also prohibits nonfinancial companies from acquiring grandfathered unitary savings and loan holding companies.

Restrictions Applicable to All Savings and Loan Holding Companies. Federal law prohibits a savings and loan holding company, including the Company, directly or indirectly, from acquiring:

(1) control (as defined under HOLA) of another savings institution (or a holding company parent) without prior FRB approval;

(2) through merger, consolidation, or purchase of assets, another savings institution or a holding company thereof, or acquiring all or substantially all of the assets of such institution (or a holding company), without prior FRB approval; or

(3) control of any depository institution not insured by the FDIC.

A savings and loan holding company may not acquire as a separate subsidiary an insured institution that has a principal office outside of the state where the principal office of its subsidiary institution is located, except:

(1) in the case of certain emergency acquisitions approved by the FDIC;

(2) if such holding company controls a savings institution subsidiary that operated a home or branch office in such additional state as of March 5, 1987; or

(3) if the laws of the state in which the savings institution to be acquired is located specifically authorize a savings institution chartered by that state to be acquired by a savings institution chartered by the

state where the acquiring savings institution or savings and loan holding company is located or by a holding company that controls such a state chartered association.

In evaluating applications by holding companies to acquire savings associations, the FRB must consider issues such as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Savings and loan holding companies have not historically been subjected to consolidated regulatory capital requirements. The Dodd-Frank Act, however, required the FRB to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to their subsidiary depository institutions. Instruments such as cumulative preferred stock and trust-preferred securities, which are currently includable within Tier 1 capital by bank holding companies within certain limits, would no longer be includable as Tier 1 capital, subject to certain grandfathering. The previously discussed final rule regarding regulatory capital requirements implements the Dodd-Frank Act as to savings and loan holding companies. However, pursuant to recent legislation, the FRB has extended the applicability of the "Small Bank Holding Company" exception of its consolidated capital requirements to savings and loan holding companies and increased the threshold for the exception to $1.0 billion, effective May 15, 2015. As a result, savings and loan holding companies with less than $1.0 billion in consolidated assets are not subject to the capital requirements unless otherwise advised by the FRB.

The Dodd-Frank Act extends the "source of strength" doctrine to savings and loan holding companies. The FRB promulgated regulations implementing the "source of strength" policy that requires holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The FRB has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends' previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also provides for regulatory consultation prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions. As was previously noted, the Company Order requires prior regulatory approval for any Company dividends, stock repurchase or capital distribution.

Federal Securities Laws

The Company is subject to the periodic reporting, proxy solicitation, tender offer, insider trading restrictions and other requirements under the Securities Exchange Act of 1934, as amended ("Exchange Act").

Delaware Corporation Law

The Company is incorporated under the laws of the State of Delaware. Thus, it is subject to regulation by the State of Delaware and the rights of its shareholders are governed by the General Corporation Law of the State of Delaware.

FEDERAL AND STATE TAXATION

Federal Taxation

General. The Company and the Bank currently file consolidated federal income tax returns, report their income for tax return purposes on the basis of a taxable year ending March 31st, using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with some exceptions, including in particular the Bank's tax reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company.

Bad Debt Reserves. Prior to fiscal 2004, the Bank met the requirement as a “small bank” (one with assets having an adjusted tax basis of $500 million or less) and was permitted to maintain a reserve for bad debts, and to make, within specified formula limits, annual additions to the reserve which are deductible for purposes of computing the Bank's taxable income. Since fiscal year 2004, the Bank has not been considered to be a small bank because its total assets have exceeded $500 million. (See Income Taxes Note 9 of Notes to the Consolidated Financial Statements.)

Distributions. To the extent that the Bank makes “non-dividend distributions” to shareholders, such distributions will be considered to result in distributions from the Bank's “base year reserve,” i.e., its reserve as of March 31, 1988, to the extent thereof and then from its supplemental reserve for losses on loans, and an amount based on the amount distributed will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not constitute non-dividend distributions and, therefore, will not be included in the Bank's taxable income.

The amount of additional taxable income created from a non-dividend distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, approximately one and one-half times the non-dividend distribution would be includable in gross income for federal income tax purposes, assuming a 34% federal corporate income tax rate.

Dividends Received Deduction and Other Matters. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank owns more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividends received may be deducted.

State and Local Taxation

State of New York. The Bank and the Company file on a combined basis and are subject to New York State franchise tax on their entire net income or one of several alternative bases, whichever results in the highest tax. “Entire net income” means federal taxable income with adjustments. If, however, the application of an alternative tax (based on taxable assets allocated to New York, “alternative” entire net income or a fixed minimum fee) results in a greater tax, an alternative tax will be imposed. The Company was subject to tax based upon assets for New York State for fiscal 2015. In addition, New York State imposes a tax surcharge of 17% of the New York State Franchise Tax allocable to business activities carried on in the Metropolitan Commuter Transportation District. For fiscal 2015, the New York State franchise tax rate computed on taxable assets was 0.01% (including the Metropolitan Commuter Transportation District Surcharge).

On March 31, 2014, New York State tax legislation was signed into law in connection with the approval of the New York State 2014-2015 budget. Portions of the new legislation resulted in significant changes in the calculation of income taxes imposed on banks and thrifts operating in New York State, including changes to (1) future period New York State tax rates, (2) rules related to sourcing of revenue for New York State tax purposes and (3) the New York State taxation of entities within one corporate structure, among other provisions. In recent years, the Company has been subject to taxation based upon assets in New York State. The new legislation removes that method in future years.

New York City. The Bank and the Company file on a combined basis and are also subject to a similarly calculated New York City banking corporation tax on assets allocated to New York City. For fiscal 2015, the New York City banking corporation tax rate computed on taxable assets is 0.01%. On April 13, 2015, New York State legislation was signed changing the New York City tax law to conform to the New York State law that was adopted last year, with some minor differences.

The impact of the new legislation effecting both the New York State and New York City tax law was a decrease to the Company's gross deferred tax asset of $1.2 million with no impact to current income due to the full valuation allowance.

Management will continue to evaluate and interpret the new legislation and the impact such legislation will have on the Company in future periods. The ultimate impact of such legislation will depend on, among other things, the level and sources of the Company's revenue and how that revenue is treated under the new legislation.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

ITEM 1A. RISK FACTORS.

The following is a summary of risk factors relevant to the Company's operations which should be carefully reviewed. These risk factors do not necessarily appear in the order of importance.

Carver is subject to more stringent capital requirements, which may adversely impact the Company's return on equity, or constrain it from paying dividends or repurchasing shares.

In July 2013, the FDIC and the FRB approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to the Bank and the Company. The final rule implements the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which became effective for the Bank and the Company on January 1, 2015, and refines the definition of what constitutes “capital” for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also established a “capital conservation buffer” of 2.5%, and the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

Carver's results of operations may be adversely affected by loan repurchases from U.S. Government Sponsored entities (“GSE's”).

In connection with the sale of loans, Carver as the loan originator is required to make a variety of representations and warranties regarding the originator and the loans that are being sold. If a loan does not comply with the representations and warranties, Carver may be obligated to repurchase the loans, and in doing so, incur any loss directly. Prior to December 31, 2009, the Bank originated and sold loans to the Federal National Mortgage Association ("FNMA"). During fiscal years 2012 through 2015, the Bank has been obligated to repurchase 20 loans previously sold to FNMA. There is no assurance that the Bank will not be required to repurchase additional loans in the future. Accordingly, any repurchase obligations to FNMA could materially and adversely affect the Bank's results of operations and earnings in the future.

The prolonged negative effect of the recession and weak economic recovery will continue to adversely affect our financial performance.

The severe recession and weak economic recovery has resulted in continued uncertainty in the financial and credit markets in general. The FRB, in an attempt to stimulate the overall economy, has, among other things, kept interest rates historically low through its targeted federal funds rate and purchased mortgage-backed securities. While this has helped prevent the economy from deteriorating further and reduced the Bank's cost of funds, the low rates have made it difficult for the Bank to earn interest income on investments and loans. If the FRB increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets, business' ability to borrow and the U.S. economic recovery. Regardless of the cause or the FRB's response, a prolonged weakness in the economy generally, and in the financial services industry in particular, could continue to negatively affect our operations in multiple ways, including the ability to originate new loans at reasonable rates and the continued deterioration of our loan portfolio, requiring increased provisions and costs to mange problem assets.

Carver's results of operations are affected by economic conditions in the New York metropolitan area.

At March 31, 2015, a significant majority of the Bank's lending portfolio was concentrated in the New York metropolitan area. As a result of this geographic concentration, Carver's results of operations are largely dependent on economic conditions in this area. Decreases in real estate values could adversely affect the value of property used as collateral for loans to our borrowers. Adverse changes in the economy caused by inflation, recession, unemployment or other factors beyond the Bank's control may also continue to have a negative effect on the ability of borrowers to make timely mortgage or business loan payments, which would have an adverse impact on earnings. Consequently, deterioration in economic conditions in the New York metropolitan area could have a material adverse impact on the quality of the Bank's loan portfolio, which could result in increased delinquencies, decreased interest income results as well as an adverse impact on loan loss experience with probable increased allowance for loan losses. Such deterioration also could adversely impact the demand for products and services, and, accordingly, further negatively affect results of operations.

The soundness of other financial institutions could negatively affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

The allowance for loan losses could be insufficient to cover Carver's actual loan losses.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to the allowance would materially decrease net income.

In addition, the OCC periodically reviews the allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. A material increase in the allowance for loan losses or loan charge-offs as required by the regulatory authorities would have a material adverse effect on the Company's financial condition and results of operations.

Carver's concentration in commercial real estate loans and multifamily loans could, in a deteriorating economic climate, expose the Company to increased lending risks and related loan losses.

Although Carver Federal has reduced its concentration in non-owner occupied commercial real estate and multifamily loans to within Board approved policy limits, Carver Federal continues to maintain a high concentration in this product area and has begun, on a select basis, to renew existing loans and make new loans. However, further deterioration in the economy could expose Carver Federal to additional losses in these loan types.

Changes in interest rate environment may negatively affect Carver Federal's net income, mortgage loan originations and valuation of available-for-sale securities.

Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting primarily of loans and, to a lesser extent, securities) and the interest expense produced by our interest-bearing liabilities (consisting primarily of deposits and wholesale borrowings).

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, the level of which is driven by the Federal Open Market Committee of the FRB. However, the yields generated by our loans and securities are typically driven by intermediate-term (i.e., five-year) interest rates, which are set by the market and generally vary from day to day. The level of net interest income is therefore influenced by movements in such interest rates, and the pace at which such movements occur. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest-earning assets, the result could be a reduction in net interest income and with it, a reduction in our earnings. Our net interest income and earnings would be similarly impacted were the interest rates on our interest-earning assets to decline more quickly than the interest rates on our interest-bearing liabilities.

In addition, such changes in interest rates could affect our ability to originate loans and attract and retain deposits; the fair values of our securities and other financial assets; the fair values of our liabilities; and the average lives of our loan and securities portfolios.

Changes in interest rates could also have an effect on loan refinancing activity which, in turn, would impact the amount of prepayment penalty income we receive on our multi-family and commercial real estate loans. Because prepayment penalties are recorded as interest income, the extent to which they increase or decrease during any given period could have a significant impact on the level of net interest income and net income we generate during that time.

In addition, changes in interest rates could have an effect on the slope of the yield curve. If the yield curve were to invert or become flat, our net interest income and net interest margin could contract, adversely affecting our net income and cash flows and the value of our assets.

In addition, the actual amount of time before mortgage and business loans and mortgage-backed securities are repaid can be significantly impacted by changes in mortgage prepayment rates and prevailing market interest rates impacting not only Carver Federal's interest income, but Carver Federal's liquidity. Mortgage prepayment rates will vary due to a number of factors, including the regional economy in the area where the underlying mortgages were originated, seasonal factors, demographic variables and the ability to assume the underlying mortgages. However, the major factors affecting prepayment rates are prevailing interest rates, related loan refinancing opportunities and competition.

Finally, the estimated fair value of the Company's available-for-sale securities portfolio may increase or decrease materially depending on changes in interest rates. Carver Federal's securities portfolio is comprised primarily of fixed rate securities.

Strong competition within the Bank's market areas could adversely affect profits and slow growth.

The New York metropolitan area has a high density of financial institutions, of which many are significantly larger than Carver Federal and with greater financial resources. Additionally, various large out-of-state financial institutions may continue to enter the New York metropolitan area market. All are considered competitors to varying degrees.

Carver Federal faces intense competition both in making loans and attracting deposits. Competition for loans, both locally and in the aggregate, comes principally from mortgage banking companies, commercial banks, savings banks and savings and loan associations. Most direct competition for deposits comes from commercial banks, savings banks, savings and loan associations and credit unions. The Bank also faces competition for deposits from money market mutual funds and other corporate and government securities funds, as well as from other financial intermediaries, such as brokerage firms and insurance companies. Market area competition is a factor in pricing the Bank's loans and deposits, which could reduce net interest income. Competition also makes it more challenging to effectively grow loan and deposit balances. The Company's profitability depends upon its continued ability to successfully compete in its market areas.

Failure to maintain effective systems of internal and disclosure controls could have a material adverse effect on the Company's results of operation and financial condition.

Effective internal and disclosure controls are necessary for the Company to provide reliable financial reports and effectively prevent fraud, and to operate successfully as a public company. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results would be harmed. As part of the Company's ongoing monitoring of internal controls, it may discover material weaknesses or significant deficiencies in its internal control that require remediation. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company continually works on improving its internal controls. However, the Company cannot be certain that these measures will ensure that it implements and maintains adequate controls over its financial processes and reporting. Any failure to maintain effective controls or to timely implement any necessary improvement of the Company's internal and disclosure controls could, among other things, result in losses from fraud or error, harm the Company's reputation, or cause investors to lose confidence in the Company's reported financial information, all of which could have a material adverse effect on the Company's results of operation and financial condition.

Carver and the Bank operate in a highly regulated industry, which limits the manner and scope of business activities.

Carver Federal is subject to extensive supervision, regulation and examination by the OCC and to a lesser extent the FDIC. The Company is subject to extensive supervision, regulation and examination by the FRB. As a result, Carver Federal and the Company are limited in the manner in which Carver Federal and the Company conducts its business, undertakes new investments and activities and obtains financing. This regulatory structure is designed primarily for the protection of the deposit insurance funds and depositors, and not to benefit the Company's stockholders. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. In addition, Carver Federal must comply with significant anti-money laundering and anti-terrorism laws. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws.

On October 4, 2006, the OCC and other federal bank regulatory authorities published the Interagency Guidance on Nontraditional Mortgage Product Risk, or (the "Guidance"). In general, the Guidance applies to all residential mortgage loan products that allow borrowers to defer repayment of principal or interest. The Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among other things, interest-only loans. The Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Guidance indicates that originating interest-only loans with reduced documentation is considered a layering of risk and that institutions are expected to demonstrate mitigating factors to support their underwriting decision and the borrower's repayment capacity. Specifically, the Guidance indicates that a lender may accept a borrower's statement as to the borrower's income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity and that, for many borrowers, institutions should be able to readily document income.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) is significantly changing the current bank regulatory structure and affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years. However, it is expected that the legislation and implementing regulations will materially increase our operating and compliance costs.

The Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets. However, institutions of less than $10 billion in assets, such as the Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of their prudential regulator rather than the Consumer Financial Protection Bureau. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk-based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, which will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities.

Effective July 21, 2011, the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts, which could result in an increase in our interest expense.

The Dodd-Frank Act also broadens the base for FDIC deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts had unlimited deposit insurance through December 31, 2012. The legislation also increases the required minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits, and directs the FDIC to offset the effects of increased assessments on depository institutions with less than $10 billion in assets.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose "clawback" policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

Effective December 10, 2013, pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the "Volcker Rule"). Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliated companies from engaging in short-term proprietary trading of certain securities, investing in funds with collateral comprised of less than 100% loans that are not registered with the Securities and Exchange Commission ("SEC") and from engaging in hedging activities that do not hedge a specific identified risk. After the transition period, the Volcker Rule prohibitions and restrictions will apply to banking entities, including the Company, unless an exception applies.

The Financial Accounting Standards Board, the SEC and other regulatory entities, periodically change the financial accounting and reporting guidance that governs the preparation of the Company's consolidated financial statements. These changes can be difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply new or revised guidance retroactively.

Our Common Stock may be delisted if we are not able to meet the NASDAQ continued listing requirements.

On November 30, 2011, we received notice from the NASDAQ Stock Market that the NASDAQ Hearings Panel had made a determination to transfer the listing of the Company's common stock from the NASDAQ Global Market to the NASDAQ Capital Market effective at the opening of the market on December 2, 2011. Although we believe that we are now in compliance with all continued listing requirements of The NASDAQ Capital Market, we may not be able to remain in compliance at all times. If we fail to meet the continued listing requirements, our shares of Common Stock may be delisted and we may be forced to list our shares of Common Stock on another exchange or quotation service. If this occurs, our Common Stock may become illiquid, and the price of our Common Stock may be negatively affected.

Restrictions on the Company and the Bank stemming from the Treasury's equity interest in the Company may have a material effect on results of operations.

On January 20, 2009, the Company became a TARP CPP participant by completing the sale of $18.98 million in preferred stock to the U.S. Treasury. As a participant, among other things, the Company must adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under this program. These standards would generally apply to the Company's CEO, CFO and the three next most highly compensated officers (“Senior Executive”). The standards include (1) ensuring that incentive compensation for Senior Executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required claw-back of any bonus or incentive compensation paid to a Senior Executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on making golden parachute payments to Senior Executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each Senior Executive. In particular, the change to the deductibility limit on executive compensation would likely increase slightly the overall cost of the Company's compensation programs. the Company also had to adopt certain monitoring and reporting processes.

On August 27, 2010, the Company redeemed the preferred stock and issued $18.98 million in Series B preferred stock in connection with the Company's changing its participation from TARP CPP to TARP Community Development Capital Initiative ("CDCI"). On October 25, 2011 Carver's shareholders approved the conversion of TARP CDCI Series B preferred stock to common stock. On October 28, 2011, the Treasury converted the CDCI Series B preferred stock to Carver common stock. Under the terms of the agreement between the Treasury and the Company, the Company agreed that so long as the Treasury has an equity interest in the Company, it will continue to be bound by all of the current restrictions and requirements that the Treasury may choose to implement. The Company is unable to determine the impact that future restrictions and/or requirements resulting from the Treasury's ownership interest may have on the Company's results of operations.

The Company is subject to certain risks with respect to liquidity.

Liquidity refers to the Company's ability to generate sufficient cash flows to support operations and to fulfill obligations, including commitments to originate loans, to repay wholesale borrowings, and to satisfy the withdrawal of deposits by customers.

The Company's primary sources of liquidity are the cash flows generated through the repayment of loans and securities, cash flows from the sale of loans and securities, deposits gathered organically through the Bank's branch network, from socially motivated depositors, city and state agencies and deposit brokers and borrowed funds, primarily in the form of wholesale borrowings from the FHLB-NY. In addition, and depending on current market conditions, the Company has the ability to access the capital markets from time to time.

Deposit flows, calls of investment securities and wholesale borrowings, and prepayments of loans and mortgage-related securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, local and national economic conditions and competition for deposits and loans in the markets the Bank serves. Furthermore, changes to the FHLB-NY's underwriting guidelines for wholesale borrowings may limit or restrict the Bank's ability to borrow, and could therefore have a significant adverse impact on liquidity.

A decline in available funding could adversely impact the Bank's ability to originate loans, invest in securities, and meet expenses, or to fulfill such obligations as repaying borrowings or meeting deposit withdrawal demands.

The Bank's ability to pay dividends or lend funds to the Company is subject to regulatory limitations that may prevent the Company from making future dividend payments or principal and interest payments on its debt obligation.

Carver is a unitary savings and loan association holding company regulated by the OCC and FRB and almost all of its operating assets are owned by Carver Federal. Carver relies primarily on dividends from the Bank to pay cash dividends to its stockholders, to engage in share repurchase programs and to pay principal and interest on its trust preferred debt obligation. The OCC regulates all capital distributions by the Bank to the Company, including dividend payments payments and the Federal Reserve Board regulates dividends by the Company. As the subsidiary of a savings and loan association holding company, Carver Federal must file a notice or an application (depending on the proposed dividend amount) with the OCC prior to each capital distribution. The OCC will disallow any proposed dividend that would result in failure to meet the OCC minimum capital requirements. In accordance with the Orders, the Bank is currently prohibited from paying any dividends without prior regulatory approval, and, as such, has suspended the Company's regularly quarterly cash dividend on its common stock. There are no assurances that the payments of dividends on the common stock will resume. The FRB also precluded future payment of debenture interest payments on the Carver Statutory Trust I capital securities. These payments remain on deferral status.

Carver may not be able to utilize its income tax benefits.

The Company's ability to utilize the deferred tax asset generated by New Markets Tax Credit income tax benefits as well as other deferred tax assets depends on its ability to meet the NMTC compliance requirements and its ability to generate sufficient taxable income from operations in the future. Since the Bank has not generated sufficient taxable income to utilize tax credits as they were earned, a deferred tax asset has been recorded in the Company's financial statements. For additional information regarding Carver's NMTC, refer to Item 7, "Variable Interest Entities."

The future recognition of Carver's deferred tax asset is highly dependent upon Carver's ability to generate sufficient taxable income. A valuation allowance is required to be maintained for any deferred tax assets that we estimate are more likely than not to be unrealizable, based on available evidence at the time the estimate is made. In assessing Carver's need for a valuation allowance, we rely upon estimates of future taxable income. Although we use the best available information to estimate future taxable income, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances influencing our projections. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, statutory rates, and future taxable income levels. The Company determined that it would not be able to realize all of its net deferred tax assets in the future, as such a charge to income tax expense in the second quarter of fiscal 2011 was made. Conversely, if the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of the net carrying amounts, the Company would decrease the recorded valuation allowance through a decrease in income tax expense in the period in which that determination was made.

On June 29, 2011, the Company raised $55 million of equity. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carry forwards, general business credits, and recognized built-in losses upon a change in ownership. The Company is subject to an annual limitation of approximately $0.9 million. The Company has a net deferred tax asset ("DTA") of approximately $29.2 million. Based on management's calculations, the Section 382 limitation has resulted in previous reductions of the deferred tax asset of $5.8 million. The Company also continues to maintain a full valuation allowance for the remaining net deferred tax asset of $23.4 million. The Company is unable to determine how much, if any of the remaining DTA will be utilized.

System failure or breaches of Carver’s network security could subject it to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure Carver and its third-party service providers use could be vulnerable to unforeseen problems. Carver’s operations are dependent upon its ability to protect its computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in Carver’s operations could have a material adverse effect on its financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through Carver’s computer systems and network infrastructure, which may result in significant liability to Carver and may cause existing and potential customers to refrain from doing business with Carver. Although Carver, with the help of third-party service providers, intends to continue to implement security technology and establish operational procedures designed to prevent such damage, its security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms Carver and its third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on Carver's financial condition and results of operations.

It is possible that a significant amount of time and money may be spent to rectify the harm caused by a breach or hack. While Carver has general liability insurance, there are limitations on coverage as well as dollar amount. Furthermore, cyber incidents carry a greater risk of injury to Carver's reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on Carver's business and consumer laws may require reimbursement of customer loss.

The Company's business could suffer if it fails to retain skilled people.

The Company's success depends on its ability to attract and retain key employees reflecting current market opportunities and challenges. Competition for the best people is intense, and the Company's size and limited resources may present additional challenges in being able to retain the best possible employees, which could adversely affect the results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable.

ITEM 2. PROPERTIES.

The Bank currently conducts its business through two administrative offices and ten branches (including the West Harlem 125th Street main branch) and four separate ATM locations.

The following table sets forth certain information regarding Carver Federal's offices and other material properties at March 31, 2015. The Bank believes that such facilities are suitable and adequate for its operational needs.

Branches	Address	City/State	Year Opened	Owned or Leased	Lease Expiration Date	% Space Utilized
Main Branch	75 West 125th Street	New York, NY	1996	Owned	n/a	100%
Crown Heights Branch	1009-1015 Nostrand Avenue	Brooklyn, NY	1975	Owned	n/a	100%
St. Albans Branch	115-02 Merrick Boulevard	Jamaica, NY	1996	Leased	2/2021	100%
Malcolm X Blvd. Branch	142 Malcolm X Boulevard	New York, NY	2001	Leased	5/2016	100%
Jamaica Center Branch	158-45 Archer Avenue	Jamaica, NY	2003	Leased	7/2018	100%
Atlantic Terminal Branch	4 Hanson Place	Brooklyn, NY	2003	Leased	4/2019	100%
Bradhurst Branch	300 West 145th Street	New York, NY	2004	Leased	8/2015	100%
Flatbush Branch	833 Flatbush Avenue	Brooklyn, NY	2009	Leased	8/2019	100%
Restoration Plaza	1392 Fulton Street	Brooklyn, NY	2009	Leased	10/2018	100%
East Harlem Branch	160 East 125th Street	New York, NY	2012	Leased	8/2015	100%
ATM Centers						
Fulton Street	1950 Fulton Street	Brooklyn, NY	2005	Leased	1/2020	100%

Myrtle Avenue	362 Myrtle Avenue	Brooklyn, NY	2007	Leased	7/2017	100%
ATM Machines						
Atlantic Terminal Mall	139 Flatbush Avenue	Brooklyn, NY	2004	Leased	4/2019	100%
Atlantic Center	625 Atlantic Avenue	Brooklyn, NY	2006	Leased	2/2019	100%
Administrative Office						
Metrotech Center	12 Metrotech Center	Brooklyn, NY	2007	Leased	12/2017	100%

ITEM 3. LEGAL PROCEEDINGS.

From time to time, the Company and the Bank or one of its wholly owned subsidiaries are parties to various legal proceedings incident to their business. Certain claims, suits, complaints and investigations (collectively “proceedings”) involving the Company and the Bank or a subsidiary, arising in the ordinary course of business, have been filed or are pending. The Company is unable at this time to determine the ultimate outcome of each proceeding, but believes, after discussions with legal counsel representing the Company and the Bank or the subsidiary in these proceedings, that it has meritorious defenses to each proceeding and appropriate measures have been taken to defend the interests of the Company, Bank or subsidiary. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank. Further, there have been no material developments or changes associated with any litigation matters previously reported by the Company or the Bank. In accordance with ASC Topic 450, Carver has accrued $30,000 for these lawsuits.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock was transferred from The Nasdaq Global Market to The Nasdaq Capital Market effective December 2, 2011. The stock had been listed on the NASDAQ Global Market under the symbol “CARV” since July 10, 2008. As of March 31, 2015, there were 3,696,087 shares of common stock outstanding, held by 811 stockholders of record. The following table shows the high and low per share sales prices of the common stock and the dividends declared for the quarters indicated.

	High	Low	Dividend		High	Low	Dividend
Fiscal Year 2015				Fiscal Year 2014			
June 30, 2014	$13.00	$10.06	$—	June 30, 2013	$6.32	$4.17	$—
September 30, 2014	$10.23	$8.65	$—	September 30, 2013	$9.00	$4.60	$—
December 31, 2014	$9.11	$5.40	$—	December 31, 2013	$9.54	$5.39	$—
March 31, 2015	$7.00	$3.95	$—	March 31, 2014	$17.87	$6.40	$—

As previously disclosed in a Form 8-K filed with the SEC on October 29, 2010, the Company’s Board of Directors announced that, based on highly uncertain economic conditions and the desire to preserve capital, Carver suspended payment of the quarterly cash dividend on its common stock.

Under OCC regulations, the Bank will not be permitted to pay dividends to the Company on its capital stock if its regulatory capital would be reduced below applicable regulatory capital requirements or if its stockholders' equity would be reduced below the amount required to be maintained for the liquidation account, which was established in connection with the Bank's conversion to stock form. The OCC capital distribution regulations applicable to savings institutions (such as the Bank) that meet their regulatory capital requirements permit, after not less than 30 days prior notice to and non-objection by the FRB, capital distributions during a calendar year that do not exceed the Bank's net income for that year plus its retained net income for the prior two years. For information concerning the Bank's liquidation account, see Note 11 of the Notes to the Consolidated Financial Statements. In addition, the Company is subject to cease and desist orders that affect their ability to pay dividends. See Item 1 - Overview - Cease and Desist Orders.

On August 6, 2002, the Company announced a stock repurchase program to repurchase up to 15,442 shares of its outstanding common stock. As of March 31, 2015, 11,744 shares of its common stock have been repurchased in open market transactions at an average price of $235.80 per share (as adjusted for 1-for-15 reverse stock split that occurred on October 27, 2011). The Company intends to use repurchased shares to fund its stock-based benefit and compensation plans and for any other purpose the Board deems advisable in compliance with applicable law. No shares were repurchased during fiscal 2015. As a result of the Company's participation in the TARP CDCI, the U.S. Treasury's prior approval is required to make further repurchases. As discussed below, the U.S. Treasury converted its preferred stock into common stock, which the U.S. Treasury continues to hold. The Company continues to be bound by the TARP CDCI restrictions so long as the U.S. Treasury is a common stockholder.

Carver has the following equity compensation plans:

(1) The Management Recognition Plan ("MRP") provides for automatic grants of restricted stock to certain employees and non-employee directors as of the date the plan became effective in 1995. Additionally, the MRP makes provision for added discretionary grants of restricted stock to those employees so selected by the Compensation Committee of the Board, which administers the plan. There are no shares available for grant under the MRP.

(2) The 1995 Stock Option Plan provides for automatic option grants to certain employees and directors as of the date the plan became effective in September of 1995, and like the MRP, also makes provision for added discretionary option grants to those employees so selected by the Compensation Committee. The 1995 Stock Option Plan expired in 2005; however, options are still outstanding under this plan.

(3) The 2006 Stock Incentive Plan became effective in September of 2006 and provides for discretionary option grants, stock appreciation rights and restricted stock to those employees and directors so selected by the Compensation Committee.

(4) The Carver Bancorp, Inc. 2014 Equity Incentive Plan became effective in September 2014 and provides for discretionary option grants, stock appreciation rights and restricted stock to those officers and directors selected by the Company's Compensation Committee.

Additional information regarding Carver's equity compensation plans is incorporated by reference from the section entitled "Securities Authorized for Issuance Under Equity Compensation Plans" in the Proxy Statement (as defined below in Item 10).

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

See Item 1 - Overview - Recapitalization - Transactions. As previously disclosed on the Form 8-K, on June 29, 2011, Carver Bancorp, Inc. entered into stock purchase agreements with several institutional investors pursuant to which the investors agreed to purchase an aggregate of 55,000 shares of the Company's Mandatorily Convertible Non-Voting Participating Preferred Stock, Series C for an aggregate purchase price of $55,000,000. The Series C preferred stock was offered and sold pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933.

On October 25, 2011, Carver's shareholders voted and approved a 1-for-15 reverse stock split. A separate vote of stockholder approval was given to convert the Series C preferred stock into Series D preferred stock and common stock and exchange the Treasury CDCI Series B preferred stock for common stock.

On October 28, 2011, the Treasury exchanged the CDCI Series B preferred stock for Carver common stock.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial and other data is as of and for the years ended March 31 and is derived in part from, and should be read in conjunction with the Company's consolidated financial statements and related notes:

$ in thousands	2015	2014	2013	2012	2011
Selected Financial Condition Data:					
Assets	$676,386	$639,838	$638,277	$641,230	$709,215
Loans held-for-sale	2,576	5,011	13,107	29,626	9,205
Total loans receivable, net	478,716	382,723	359,133	393,037	557,156
Investment securities	113,107	98,490	125,094	96,187	71,248
Cash and cash equivalents	50,992	122,554	104,646	91,697	44,077
Deposits	527,761	509,366	495,716	532,597	560,698
Advances from the FHLB-NY and other borrowed money	83,403	70,403	76,403	43,429	112,641
Equity	54,979	51,169	56,735	56,619	27,717
Number of deposit accounts	45,780	40,530	41,195	41,549	44,413
Number of branches	10	10	10	9	9
Operating Data:					
Interest income	22,327	23,248	23,785	27,936	36,245
Interest expense	3,942	3,951	4,878	8,053	9,455
Net interest income before provision for (recovery of) loan losses	18,385	19,297	18,907	19,883	26,790
Provision for (recovery of) loan losses	(3,010)	(426)	(3,327)	16,342	27,114
Net interest income after provision for (recovery of) loan losses	21,395	19,723	22,234	3,541	(324)
Non-interest income	5,568	6,806	7,049	3,654	7,330
Non-interest expense	26,714	27,373	29,238	30,934	30,758
Income (loss) before income taxes	249	(844)	45	(23,739)	(23,752)
Income tax expense (benefit)	166	102	328	(961)	15,718
Net (loss) income attributable to non-controlling interest	(281)	(110)	(945)	629	57
Net income (loss) attributable to Carver Bancorp, Inc.	364	(836)	662	(23,407)	(39,527)
Basic earnings (loss) per common share (10)	0.10	(0.23)	0.18	(14.26)	(242.25)
Diluted earnings (loss) per common share	0.10	(0.23)	0.18	(14.26)	(242.25)
Cash dividends per common share	—	—	—	—	0.50
Selected Statistical Data:					
Return on average assets (1)	0.06%	(0.14)%	0.11%	(3.49)%	(5.08)%
Return on average stockholders' equity (2) (11)	0.67%	(1.57)%	1.19%	(40.46)%	(79.00)%
Return on average stockholders' equity, excluding AOCI (2) (11)	0.64%	(1.49)%	1.18%	(40.37)%	(78.83)%
Net interest margin (3)	3.03%	3.35%	3.11%	3.10%	3.62%
Average interest rate spread (4)	2.91%	3.22%	2.93%	2.78%	3.42%
Efficiency ratio (5) (10)	111.53%	104.87%	112.64%	131.43%	90.15%
Operating expense to average assets (6)	4.27%	4.56%	4.74%	4.62%	3.96%
Average stockholders' equity to average assets (7) (11)	8.68%	8.90%	9.00%	8.64%	6.44%
Average stockholders' equity, excluding AOCI, to average assets (7) (11)	9.09%	9.33%	9.07%	8.66%	6.45%
Dividend payout ratio (8)	—	—	—	—	NM

Asset Quality Ratios:										
Non-performing assets to total assets [9]	2.26	%	2.96	%	7.23	%	13.47	%	12.29	%
Non-performing loans to total loans receivable [9]	1.74	%	3.22	%	8.27	%	13.22	%	13.34	%
Allowance for loan losses to total loans receivable	0.93	%	1.85	%	2.97	%	4.80	%	3.99	%

(1) Net income (loss) divided by average total assets.

(2) Net income (loss) divided by average total stockholders' equity

(3) Net interest income divided by average interest-earning assets.

(4) Combined weighted average interest rate earned less combined weighted average interest rate cost.

(5) Operating expense divided by sum of net interest income and non-interest income.

(6) Non-interest expense divided by average total assets.

(7) Average stockholders' equity divided by average assets for the period ended.

(8) Dividends paid to common stockholders as a percentage of net income available to common stockholders.

(9) Non-performing assets consist of nonaccrual loans, loans held-for-sale and real estate owned.

(10) Common stock shares for all periods presented reflects a 1-for-15 reverse stock split which was effective on October 27, 2011. The decline in loss per share from 2011 to 2012 is attributable to the issuance of 3,529,325 shares of common stock on October 28, 2011 as a result of the Company's June 29, 2011 raise of $55 million of equity.

(11) See Non-GAAP Financial Measures disclosure below for comparable GAAP measures.

NA-Not applicable when in loss position because the impact would be antidilutive.

NM-Not meaningful.

Non-GAAP Financial Measures

In addition to evaluating Carver Bancorp's results of operations in accordance with U.S. generally accepted accounting principles (“GAAP”), management routinely supplements their evaluation with an analysis of certain non-GAAP financial measures, such as the efficiency ratio, return on average stockholders' equity excluding average accumulated other comprehensive income (loss) ("AOCI"), and average stockholders' equity excluding AOCI to average assets. Management believes these non-GAAP financial measures provide information that is useful to investors in understanding the Company's underlying operating performance and trends, and facilitates comparisons with the performance of other banks and thrifts. Further, the efficiency ratio is used by management in its assessment of financial performance, including non-interest expense control.

Return on equity measures how efficiently we generate profits from the resources provided by our net assets. Return on average stockholders' equity is calculated by dividing annualized net income (loss) by average stockholders' equity, excluding AOCI. Management believes that this performance measure explains the results of the Company's ongoing businesses in a manner that allows for a better understanding of the underlying trends in the Company's current businesses. For purposes of the Company's presentation, AOCI includes the changes in the market or fair value of its investment portfolio and former pension plan. These fluctuations have been excluded due to the unpredictable nature of this item and is not necessarily indicative of current operating or future performance.

$ in thousands	2015	2014	2013	2012