CARVER BANCORP INC
Form 10-Q
November 14, 2011

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

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

For the quarterly period ended September 30, 2011
OR

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

For the transition period from to
Commission File Number: 1-13007
CARVER BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	13-3904174 (I.R.S. Employer Identification No.)
75 West 125th Street, New York, New York (Address of Principal Executive Offices)	10027 (Zip Code)

Registrant's telephone number, including area code: (718) 230-2900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes o No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
o Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer 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 þ No

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

Common Stock, par value $0.01	3,695,298
Class	Outstanding at November 11, 2011

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

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

	September 30, 2011 (unaudited)	March 31, 2011
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$69,425	$36,725
Money market investments	592	7,352
Total cash and cash equivalents	70,017	44,077
Restricted cash	6,275	—
Investment securities:		
Available-for-sale, at fair value	57,575	53,551
Held-to-maturity, at amortized cost (fair value of $12,552 and $18,124 at September 30, 2011 and March 31, 2011, respectively)	11,901	17,697
Total investments	69,476	71,248
Loans held-for-sale (“HFS”)	39,369	9,205
Loans receivable:		
Real estate mortgage loans	435,603	525,894
Commercial business loans	52,069	53,060
Consumer loans	1,280	1,349
Loans, net	488,952	580,303
Allowance for loan losses	(21,429)	(23,147)
Total loans receivable, net	467,523	557,156
Premises and equipment, net	10,433	11,040
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	2,844	3,353
Accrued interest receivable	2,483	2,854
Other assets	9,552	10,282
Total assets	677,972	$709,215
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Deposits:		
Savings	$104,086	$106,906
Non-Interest Bearing Checking	95,986	123,706
NOW	25,319	27,297
Money Market	83,060	74,329
Certificates of Deposit	191,371	228,460
Total deposits	499,822	560,698
Advances from the FHLB-NY and other borrowed money	102,513	112,641
Other liabilities	11,904	8,159
Total liabilities	614,239	681,498

Mezzanine Equity:		
55,000 Series C mandatorily convertible preferred stock,(par value $0.01, per share) with a liquidation preference of $1,000, issued and outstanding	51,432	—
Stockholders’ equity:		
Preferred stock (par value $0.01 per share, 2,000,000 shares authorized; 18,980 Series B shares, with a liquidation preference of $1,000 per share, issued and outstanding.	18,980	18,980
Common stock (par value $0.01 per share: 10,000,000 shares authorized; 168,312 shares issued; 166,013 and 165,618 shares outstanding at September 30, 2011 and March 31, 2011, respectively)	25	25
Additional paid-in capital	28,406	27,026
Accumulated deficit	(37,235)	(21,464)
Non-controlling interest	2,837	4,038
Treasury stock, at cost (2,298 shares at September, 2011 and 2,695 at March 31, 2011, respectively)	(488)	(569)
Accumulated other comprehensive income	(224)	(319)
Total stockholders’ equity	12,301	27,717
Total equity	$63,733	$27,717
Total liabilities, mezzanine equity and stockholders equity	$677,972	$709,215

See accompanying notes to consolidated financial statements

1

Table of Contents

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Interest Income:				
Loans	$6,958	$8,686	$13,660	$17,634
Mortgage-backed securities	342	525	739	1,111
Investment securities	116	94	226	158
Money market investments	25	38	49	59
Total interest income	7,441	9,343	14,674	18,962
Interest expense:				
Deposits	937	1,504	1,943	3,021
Advances and other borrowed money	827	983	1,776	2,024
Total interest expense	1,764	2,487	3,719	5,045
Net interest income	5,677	6,856	10,955	13,917
Provision for loan losses	7,007	7,829	12,177	14,077
Net interest income after provision for loan losses	(1,330)	(973)	(1,222)	(160)
Non-interest income:				
Depository fees and charges	751	742	1,472	1,499
Loan fees and service charges	208	214	486	435
Gain on sale of securities, net	—	739	—	763
Gain on sales of loans, net	134	4	134	7
New Market Tax Credit (“NMTC”) fees	—	370	—	1,182
Lower of cost or market adjustment on loans held for sale	(275)	—	(375)	—
Other	10	176	202	222
Total non-interest income	828	2,245	1,919	4,108
Non-interest expense:				
Employee compensation and benefits	3,137	2,901	6,182	6,107
Net occupancy expense	970	975	1,902	1,952
Equipment, net	537	548	1,080	1,086
Consulting fees	116	326	206	545
Federal deposit insurance premiums	355	394	809	750
Other	2,512	2,492	4,740	4,660
Total non-interest expense	7,627	7,636	14,919	15,100
Loss before income taxes	(8,129)	(6,364)	(14,222)	(11,152)
Income tax expense	185	16,998	76	14,702
Non Controlling interest, net of taxes	1,136	—	1,282	—
Net loss	$(9,450)	$(23,362)	$(15,580)	$(25,854)
Loss per common share:				
Basic (*)	$(58.67)	$(141.72)	$(95.68)	$(158.12)

(*) Common stock shares reflect 1 for 15 reverse stock split which was effective on October 27, 2011
See accompanying notes to consolidated financial statements

Table of Contents

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
For the Six months ended September 30, 2011

(In thousands)
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Non-controlling interest	Accumulated deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance—March 31, 2011	$18,980	$25	$27,026	$(569)	$4,038	$(21,464)	$(319)	$27,717
Net loss	—	—	—	—	—	(15,580)	—	(15,580)
Minimum pension liability adjustment	—	—	—	—	—	—	—	—
Reclassification of gains included net of taxes	—	—	—	—	—	—	—	—
Change in net unrealized gain on available-for-sale securities, net of taxes	—	—	—	—	—	—	95	95
Comprehensive income (loss), net of taxes:	—	—	—	—	—	(15,580)	95	(15,485)
Transfer between Non Controlling and Controlling Interest	—	—	1,201	—	(1,201)	—	—	—
Accrued Preferred Dividends	—	—	192	—	—	(192)	—	—
Treasury stock activity	—	—	(13)	81	—	1	—	69
Balance—September 30, 2011	$18,980	$25	$28,406	$(488)	$2,837	$(37,235)	$(224)	$12,301

See accompanying notes to consolidated financial statements.

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

	Six Months Ended September 30, 2011	2010
OPERATING ACTIVITIES		
Net loss before attribution of noncontrolling interests	$(14,298)	$(25,854)
Net loss attributable to noncontrolling interests	(1,282)	—
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	12,177	14,077
Deferred Tax Asset and related valuation allowance	—	20,684
Provision for REO losses	—	19
Stock based compensation expense	37	51
Depreciation and amortization expense	723	760
Amortization of intangibles	76	76
Loss from sale of real estate owned	124	20
Gain on sale of securities, net	—	(763)
Gain on sale of loans, net	(135)	(8)
Market adjustment on held for sale loans	375	—
Originations of Transfers of loans held-for-sale	—	(2,128)
Proceeds from sale of loans held-for-sale	8,237	2,128
Decrease in accrued interest receivable	371	322
Increase in loan premiums and discounts and deferred charges	(80)	(412)
Decrease (increase) in premiums and discounts — securities	221	(771)
Decrease (increase) in other assets	364	(7,954)
Increase (decrease) in other liabilities	3,746	(328)
Net cash provided by operating activities	10,656	(81)
INVESTING ACTIVITIES		
Purchases of securities: Available-for-sale	(18,325)	(65,130)
Purchases of securities: Held-to-maturity	—	(7,980)
Proceeds from principal payments, maturities, calls and sales of securities: Available-for-sale	14,355	50,996
Proceeds from principal payments, maturities, calls and sales of securities: Held-to-maturity	5,689	834
Originations of loans held-for-investment	(14,708)	(14,501)
Principal collections on loans	51,800	56,974
Proceeds on sale of loans	1,363	—
Increase in restricted cash	(6,275)	
Redemption of FHLB-NY stock	509	753
Additions to premises and equipment	(115)	(505)
Proceeds from sale of real estate owned	563	7
Net cash provided by investing activities	34,856	21,448
FINANCING ACTIVITIES		
Net decrease in deposits	(60,876)	(4,316)

Net change in FHLB-NY advances and other borrowings	(10,128)	(19,015)
Increase in capital	51,432	—
Dividends paid	—	(568)
Net cash (used in) provided by financing activities	(19,572)	(23,899)
Net increase used in cash and cash equivalents	25,940	(2,532)
Cash and cash equivalents at beginning of period	44,077	38,346
Cash and cash equivalents at end of period	$70,017	$35,814
Supplemental information:		
Noncash Transfers-		
Change in unrealized loss on valuation of available-for-sale investments, net	$169	$(163)
Transfers from loans held-for-investment to loans held-for-sale	$38,776	$550
Cash paid for-		
Interest	$3,959	$4,997
Income taxes	$808	$1,120

See accompanying notes to consolidated financial statements

Table of Contents

CARVER BANCORP, INC AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
NOTE 1. ORGANIZATION
Nature of operations
Carver Bancorp, Inc. (on a stand-alone basis, the “Holding Company” or “Registrant”), was incorporated in May 1996 and its principal wholly-owned subsidiaries are Carver Federal Savings Bank (the “Bank” ,“Carver Federal” or "CFSB"), Alhambra Holding Corp, an inactive Delaware corporation, and Carver Federal’s wholly-owned subsidiaries, CFSB Realty Corp, Carver Community Development Corp. (“CCDC”) and CFSB Credit Corp, which is currently inactive. The Bank has a majority owned interest in Carver Asset Corporation, a real estate investment trust formed in February 2004.
“Carver,” the “Company,” “we,” “us” or “our” refers to the Holding Company along with its consolidated subsidiaries. The Ba was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally chartered mutual savings and loan association. The Bank converted to a federal savings bank in 1986. On October 24, 1994, the Bank converted from a mutual holding company to stock form and issued 2,314,275 shares of its common stock, par value $0.01 per share. On October 17, 1996, the Bank completed its reorganization into a holding company structure (the “Reorganization”) and became a wholly owned subsidiary of the Holding Company. Collectively, the Holding Company, the Bank and the Holding Company’s other direct and indirect subsidiaries are referred to herein as the “Company” or “Carver.”
In September 2003, the Holding Company formed Carver Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures of the Holding Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidations,” Carver Statutory Trust I is unconsolidated for financial reporting purposes.
Carver Federal’s principal business consists of attracting deposit accounts through its branches and investing those funds in mortgage loans and other investments permitted by federal savings banks. The Bank has nine branches located throughout the City of New York that primarily serve the communities in which they operate.
On February 10, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (“Orders”) with the Office of Thrift Supervision ("OTS"). The OTS issued these Orders based upon its findings that the Company is operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it is operating with an excessive level of adversely classified assets and that its earnings are inadequate to augment its capital. Effective July 21, 2011, supervisory authority for the Orders passed to the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency.

On June 29, 2011 the Company raised $55 million of capital by issuing 55,000 shares of mandatorily convertible Series C preferred stock. The $55 million resulted in a $51.4 million increase in liquidity after considering the effect of various expenses associated with the capital raise. The capital raise enabled the Company on June 30, 2011 to make a capital injection of $37 million in Carver Federal Savings Bank, the Company's wholly owned bank subsidiary, retaining the remainder of the net capital raised for future strategic purposes. No assurances can be given that the amount of capital raised is sufficient to absorb the expected losses emanating from the Bank's loan portfolio. Should the losses be greater than expected additional capital may be necessary in the future.

On October 25, 2011 Carver's shareholders voted and approved a 1 for 15 reverse stock split. A separate vote of approval was given to convert the Series C preferred stock to Series D preferred stock and to common stock and to 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 2,321,286 shares of Carver common stock and the Series C preferred stock converted into 1,208,039 shares of Carver common stock and 45,118 shares of Series D preferred stock.

In addition, no assurances can be given that the Bank and the Company will continue to comply with all provisions of the Orders. Failure to comply with these provisions could result in further regulatory actions to be taken by the regulators.

Table of Contents

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the March 31, 2011 Annual Report to Stockholders on Form 10-K. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, realization of deferred tax assets, and the fair value of financial instruments. Management believes that prepayment assumptions on mortgage-backed securities and mortgage loans are appropriate and the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future write downs of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

The Company has adjusted the presentation of restricted cash deposits in the Consolidated Statement of Financial Condition at June 30, 2011 to present restricted cash as a separate financial statement caption. The Company reported restricted cash in total cash and cash equivalents at March 31, 2011. The Company has recognized this adjustment in presentation as an investing activities cash flow in the Consolidated Statements of Cash Flows in the quarterly period ending June 30, 2011.

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

Investment Securities

When purchased, investment securities are designated as either investment securities held-to-maturity, available-for-sale or trading.

Securities are classified as held-to-maturity and carried at amortized cost only if the Bank has a positive intent and ability to hold such securities to maturity. Securities held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using the level-yield method over the remaining period until maturity.

If not classified as held-to-maturity, securities are classified as available-for-sale demonstrating management's ability to sell in response to actual or anticipated changes in interest rates and resulting prepayment risk or any other factors. Available-for-sale securities are reported at fair value. Estimated fair values of securities are based on either published or security dealers' market value if available. If quoted or dealer prices are not available, fair value is estimated using quoted or dealer prices for similar securities.

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.

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized holding loss. Unrealized holding gains or losses for securities available-for-sale are excluded from earnings and reported net of deferred income taxes in accumulated other comprehensive income (loss), a component of Stockholders' Equity. Any other-than-temporary impairment is recognized in earnings when management has an intent to sell or that management believes it is more-likely-than-not that it will be required to sell the security prior to the recovery of the amortized cost basis. For those securities that management does not intend to sell or expect to be required to sell, credit related impairment is recognized in earnings, with the non-credit related impairment recorded in other comprehensive income. During fiscal 2011 and fiscal 2010 no impairment charges were recorded. Gains or losses on sales of securities of all classifications are recognized based on the specific identification method.

Loans Held-for-Sale

Table of Contents

Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held for sale are based upon offered purchase prices, broker price opinions or discounted cash flows.

Loans Receivable

Loans receivable are carried at unpaid principal balances plus unamortized premiums, purchase accounting mark-to-market adjustments, certain deferred direct loan origination costs and deferred loan origination fees and discounts, less the allowance for loan losses.

The Bank defers loan origination fees and certain direct loan origination costs and accretes such amounts as an adjustment of yield over the contractual lives of the related loans using methodologies which approximate the interest method. Premiums and discounts on loans purchased are amortized or accreted as an adjustment of yield over the contractual lives, of the related loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.

Loans are placed on non-accrual status when they are past due 90 days or more as to contractual obligations or when other circumstances indicate that collection is not probable. When a loan is placed on non-accrual status, any interest accrued but not received is reversed against interest income. Payments received on a non-accrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on an assessment of the ability to collect the loan. A non-accrual loan is restored to accrual status when principal and interest payments become less than 90 days past due and its future collectability is reasonably assured.

The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. Collateral dependent impaired loans are assessed individually to determine if the loan's current estimated fair value of the property that collateralizes the impaired loan, if any, less costs to sell the property, is less than the recorded investment in the loan. Cash flow dependent loans are assessed individually to determine if the present value of the expected future cash flows is less than the recorded investment in the loan. Smaller balance homogeneous loans are evaluated for impairment collectively unless they are modified in a trouble debt restructure. Such loans include one-to four family residential mortgage loans and consumer loans.

Allowance for Loan and Lease Losses

The adequacy of the Bank's ALLL is determined, in accordance with the Interagency Policy Statement on the Allowance for Loan and Lease Losses (the “Interagency Policy Statement”) released by the Office of Thrift Supervision on December 13, 2006 and in accordance with Accounting Standards Codification (“ASC”) Topic 450 and ASC Topic 310. Compliance with the Interagency Policy Statement includes management's review of the Bank's loan portfolio, including the identification and review of individual problem situations that may affect a borrower's ability to repay. In addition, management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral, current charge-offs and other factors that may affect the portfolio, including a review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio are all taken into consideration.

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is a great amount of judgment applied to developing the ALLL. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential embedded in a loan portfolio. Any change in the judgments utilized to develop the ALLL can change the ALLL. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans.

General Reserve Allowance

Carver's maintenance of a general reserve allowance in accordance with ASC Topic 450 includes Carver's evaluating the risk to loss potential of pools of loans based upon a review of 10 different factors that are then applied to each pool. The pools of loans ("Loan Type") are:
1-4 Family
Construction
Multifamily
Commercial Real Estate
Business Loans
SBA Loans
Other (Consumer and Overdraft Accounts)

7

Table of Contents

The pools are further segregated into the following risk rating classes:

Pass and Pass with Care
Special Mention
Substandard
Doubtful

The Bank next applies to each pool a risk factor that determines the level of general reserves for that specific pool. The risk factors are comprised of actual losses for the most recent four quarters as a percentage of each respective Loan Type plus qualitative factors. As the loss experience for a Loan Type increases or decreases, the level of reserves required for that particular Loan Type also increases or decreases. Because actual loss experience may not adequately predict the level of losses embedded in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be increased based upon any of those factors. As the risk ratings worsen some of the qualitative factors tend to increase. The nine qualitative factors the Bank considers and may utilize are:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses (Policy & Procedures).
2. Changes in relevant economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments. (Economy).
3. Changes in the nature or volume of the loan portfolio and in the terms of loans (Nature & Volume).
4. Changes in the experience, ability, and depth of lending management and other relevant staff (Management).
5. Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans (Problem Assets).
6. Changes in the quality of the loan review system (Loan Review).
7. Changes in the value of underlying collateral for collateral-dependent loans (Collateral Values).
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations (Concentrations).
9. The effect of other external forces such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio (External Forces).

Specific Reserve Allowance
Carver also maintains a specific reserve allowance for Criticized & Classified loans individually reviewed for impairment in accordance with ASC Topic 310 guidelines and deemed to be impaired. ASC Topic 310 is the primary basis for determining if a loan is impaired, and if impaired, valuing the impairment amount of specific loans whose collectability has been called into question. The amount assigned to this aspect of the ALLL is the individually-determined (i.e., loan-by-loan) portion thereof. The standard requires the use of one of three approved methods to estimate the amount to be reserved and/or charged off for such credits. The three methods are as follows:

1. The present value of expected future cash flows discounted at the loan's effective interest rate,
2. The loan's observable market price, or
3. The fair value of the collateral if the loan is collateral dependent.

The institution may choose the appropriate ASC Topic 310 measurement on a loan-by-loan basis for an individually impaired loan, except for an impaired collateral-dependent loan. Guidance requires impairment of a collateral dependent loan to be measured using the fair value of collateral method. A loan is considered "collateral dependent" when the repayment of the debt will be provided solely by the underlying collateral, and there are no other available and reliable sources of repayment.

Criticized and Classified loans with at risk balances of $1,000,000 or more and loans below $1,000,000 that the Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Topic 310, Accounting by Creditors for Impairment of a Loan. Carver also performs impairment analysis for all troubled debt restructuring ("TDRs"). If it is determined that it is probable the Bank will be unable to collect all amounts due according with the contractual terms of the loan agreement, the loan is categorized as impaired.

If the loan is determined to be not impaired, it is then placed in the appropriate pool of Criticized & Classified loans to be evaluated for potential losses. Loans determined to be impaired are then evaluated to determine the measure of impairment amount based on one of the three measurement methods noted above. If it is determined that there is an impairment amount, the

Table of Contents

Bank then determines whether the impairment amount is permanent (that is a confirmed loss), in which case the impairment is written down, or if it is other than permanent, in which case the Bank establishes a specific valuation reserve that is included in the total ALLL. In accordance with guidance, if there is no impairment amount, no reserve is established for the loan.

Troubled Debt Restructured Loans

Troubled debt restructured loans are those loans whose terms have been modified because of deterioration in the financial condition of the borrower. Modifications could include extension of the terms of the loan, reduced interest rates, and forgiveness of accrued interest and/or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered restructured until paid in full. For a cash flow dependent loans the Company records an impairment charge equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the original loans effective interest rate, and the original loans carrying value. For a collateral dependent loan, the Company records an impairment 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. TDR loans remain on non-accrual status until they have performed in accordance with the restructured terms for a period of at least 6 months. Carver adopted the ASU 2011-02 guidance with respect to troubled debt restructured loans. The adoption of this guidance did not have a material effect on the Company's consolidated statement of financial condition or results of operations.

NOTE 3. LOSS PER SHARE

The following table reconciles the loss available to common shareholders (numerator) and the weighted average common shares outstanding (denominator) for both basic and diluted loss per share for the following periods (in thousands, except for per share data):

	Three Months Ended September 30,		Six Months Ended September 30	
	2011	2010	2011	2010
Loss per common share — basic				
Net loss	$(9,450)	$(23,362)	$(15,580)	$(25,854)
Less: Capital Purchase Program "CPP" Preferred Dividends (1)	288	269	288	506
Dividends paid and undistributed (losses)/earnings allocated to participating securities	—	(172)	—	(187)
Net Loss Available to Common Shareholders	$(9,738)	$(23,459)	$(15,868)	$(26,173)
Weighted average common shares outstanding (2)	165,983	165,535	165,852	165,526
Loss per common share	$(58.67)	$(141.72)	$(95.68)	$(158.12)
Diluted Loss per common share	N/A	N/A	N/A	N/A

(1) Includes $96 of accrued preferred dividends from the three month period ended March 31, 2011

(2) Common share count reflects 1 for 15 reverse stock split which was effective on October 27, 2011

There was no diluted amount per share reported in either period due to the losses incurred.

NOTE 4. ACCOUNTING FOR STOCK BASED COMPENSATION

All stock-based compensation is recognized as an expense measured at the fair value of the award. The accounting guidance also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows in the consolidated statement of cash flows. Stock-based compensation expense recognized for the

Table of Contents

six months ended September 30, 2011 and 2010 totaled $37,000 and $51,000 respectively.

NOTE 5. BENEFIT PLANS

Carver Federal has a non-contributory defined benefit pension plan covering all who were participants prior to curtailment of the plan. The benefits are based on each employee’s term of service through the date of curtailment. The plan was curtailed during the fiscal year ended March 31, 2001.

NOTE 6. STOCK DIVIDENDS

As previously disclosed in a Form 8-K filed with the SEC on October 29, 2010, the Company’s Board of Directors announced that, based on highly uncertain economic conditions and the desire to preserve capital, Carver was suspending payment of the quarterly cash dividend on its common stock. In accordance with the Orders, the Bank and Company are also prohibited from paying any dividends without prior regulatory approval, and, as such, suspended the regularly quarterly cash dividend payments on the Company's Series B preferred stock issued under the Trouble Asset Relief Program Capital Purchase Program ("TARP CPP") to the United States Department of Treasury ("Treasury") and deferred Carver Statutory Trust I debenture interest payments. There are no assurances that the payments of dividends on the common stock will resume.

On October 18, 2011 Carver received approval from the Federal Reserve Bank to pay all outstanding dividend payments on the Company's Series B preferred stock issued under the TARP CPP.

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

NOTE 7. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank’s asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC subtopic 320-942 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At September 30, 2011, the Bank had no securities classified as trading. At September 30, 2011, $57.6 million, or 82.9% of the Bank’s mortgage-backed and other investment securities, were classified as available-for-sale. The remaining $11.9 million or 17.1% were classified as held-to-maturity.

Table of Contents

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at September 30, 2011 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$28,126	$88	$(414)	$27,800
Federal Home Loan Mortgage Corporation	1,702	—	(9)	1,693
Federal National Mortgage Association	3,848	46	—	3,894
Other	52	—	—	52
Total mortgage-backed securities	33,728	134	(423)	33,439
U.S. Government Agency Securities	21,201	136	(10)	21,327
U.S. Government Securities	2,799	10	—	2,809
Total available-for-sale	57,728	280	(433)	57,575
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	7,123	462	—	7,585
Federal Home Loan Mortgage Corporation	3,017	98	—	3,115
Federal National Mortgage Association	1,761	91	—	1,852
Total held-to-maturity mortgage-backed securities	11,901	651	—	12,552
Total securities	$69,629	$931	$(433)	$70,127

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2011 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$30,162	$150	$(115)	$30,197
Federal Home Loan Mortgage Corporation	1,864	—	(13)	1,851
Federal National Mortgage Association	4,286	—	(63)	4,223
Other	45	—	—	45
Total mortgage-backed securities	36,357	150	(191)	36,316
U.S. Government Agency Securities	14,968	—	(277)	14,691
U.S. Government Securities	2,547	—	(3)	2,544
Total available-for-sale	53,872	150	(471)	53,551
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	7,598	206	—	7,804
Federal Home Loan Mortgage Corporation	8,210	131	—	8,341
Federal National Mortgage Association	1,889	90	—	1,979
Total mortgage-backed securities	17,697	427	—	18,124
Other	—	—	—	—
Total held-to-maturity	17,697	427	—	18,124
Total securities	$71,569	$577	$(471)	$71,675

11

Table of Contents

The following table sets forth the unrealized losses and fair value of securities at September 30, 2011 for less than 12 months and 12 months or longer (in thousands):

	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$(423)	$24,059	$—	$—	$(423)	$24,059
Agencies	(10)	4,990	—	—	$(10)	$4,990
Total available-for-sale	(433)	29,049	$—	$—	(433)	29,049
Held-to-Maturity:						
Mortgage-backed securities	—	—	—	—	—	—
Total held-to-maturity	—	—	—	—	—	—
Total securities	$(433)	$29,049	$—	$—	$(433)	$29,049

The following table sets forth the unrealized losses and fair value of securities at March 31, 2011 for less than 12 months and 12 months or longer (in thousands):

	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$(191)	$11,534	$—	$—	$(191)	$11,534
Agencies	(280)	17,235	—	—	(280)	17,235
Total available-for-sale	(471)	28,769	—	—	(471)	28,769
Held-to-Maturity:						
Mortgage-backed securities	—	345	—	—	—	345
Total held-to-maturity	—	345	—	—	—	345
Total securities	$(471)	$29,114	$—	$—	$(471)	$29,114

A total of six available for sale securities had an unrealized loss at September 30, 2011 compared to sixteen at March 31, 2011, based on estimated fair value. There were no securities in the held to maturity portfolio that had an unrealized loss at September 30, 2011 compared to one security at March 31, 2011. The majority of the securities in an unrealized loss position were mortgage backed securities and agency securities, which represented 92.3% and 7.7% of total securities which had an unrealized loss at September 30, 2011, respectively. The cause of the temporary impairment is directly related to changes in interest rates. In general, as interest rates decline, the fair value of securities will rise, and conversely as interest rates rise, the fair value of securities will decline. Management considers fluctuations in fair value as a result of interest rate changes to be temporary, which is consistent with the Bank's experience. The impairments are deemed temporary based on the direct relationship of the rise in fair value to movements in interest rates, the life of the investments and their high credit quality. Any other-than-temporary impairment is recognized in earnings when there are non-credit losses on a debt security which management does not intend to sell, and believes that it more-likely-than-not be required to sell the security prior to the recovery. In those situations, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income. At September 30, 2011, the Bank did not have any securities that would be classified as having other than temporary impairment in its investment portfolio.

Table of Contents

The following is a summary of the carrying value (amortized cost) and fair value of securities at September 30, 2011, by remaining period to contractual maturity (ignoring earlier call dates, if any). Actual maturities may differ from contractual maturities because certain security issuers have the right to call or prepay their obligations. The table below does not consider the effects of possible prepayments or unscheduled repayments.

	Amortized Cost	Fair Value	Weighted Avg Rate	
Available-for-Sale:				
Less than one year	$1,250	$1,251	0.22	%
One through five years	13,748	13,818	1.11	%
Five through ten years	11,540	11,639	1.96	%
After ten years	31,190	30,867	2.60	%
Total	57,728	57,575	2.12	%
Held-to-maturity:				
Five through ten years	255	268	4.20	%
After ten years	11,646	12,284	4.06	%
Total	$11,901	$12,552	4.07	%

NOTE 8. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The loans receivable portfolio is segmented into One-to-Four Family, Multifamily Mortgage, Commercial Real-Estate, Construction, Business, Small Business Administration & Consumer and Other Loans.

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

The General Allowance for Pass rated loans and Criticized and Classified loans is determined in accordance with ASC Topic 450 whereby management evaluates the risk of loss potential of pools of loans which are segmented by loan type and then by risk rating. The loan types include; i) One-to-Four family mortgages, ii) Multifamily, iii) Commercial Real Estate, iv) Construction, v) Business, vi) Small Business Administration, and vii) Consumer and

other loans.
To determine the balance of the ALLL, management evaluates the risk of potential loss to these pools of pass rated or criticized and classified loans, which are risk rated special mention, substandard or doubtful. This analysis is based upon a review of 10 different factors that are then applied to the pools of loans. The first factor utilized is actual historical loss experience by loan type expressed as a percentage of the average outstanding of all loans within the loan type over the prior four quarters.

Table of Contents

Because actual loss experience alone may not adequately predict the level of losses embedded in a portfolio, management also reviews nine qualitative factors to determine if reserves should be increased based upon any of those factors. These nine factors are reviewed and analyzed for each loan type and each risk rating. The lower the credit quality, the greater the risk for potential loss.

The Specific Allowance for Classified loans is determined in accordance with ASC Topic 310 which is the primary basis for individually determining if a loan is impaired, and if impaired, valuing the impairment amount of specific loans whose collectability is questionable. The standard requires the use of one of the following three approved methods to estimate the amount to be reserved and/or charged off: i) the present value of expected future cash flow discounted at the loan's effective interest rate, ii) the loan's observable market price, or iii) the fair value of the collateral if the loan is collateral dependent.

Classified loans with at risk balances of $1 million or more are identified and reviewed for individual evaluation for impairment. Carver also performs an impairment analysis on all troubled debt restructurings ("TDRs"). If it is determined that it is probable the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, the loan is impaired. If the loan is determined not to be impaired, it is then placed in the appropriate pool of Classified loans to be evaluated for potential losses. The impaired loans are then evaluated to determine the measure of impairment amount based on one of the three measurement methods noted above. If it is determined that there is an impairment amount, the Bank then determines whether the impairment amount is permanent, in which case the loan balance is written down, or if it is other than permanent, the Bank establishes a specific valuation reserve that is included in the total ALLL. Also, in accordance with guidance, if there is no impairment amount, no reserve is established for the loan.

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

The following is a summary of loans receivable, net of allowance for loan losses, at September 30, 2011 and March 31, 2011 (dollars in thousands).

	September 30, 2011			March 31, 2011		
	Amount	Percent		Amount	Percent	
Gross loans receivable:						
One- to four-family	$76,674	15.61	%	$82,061	14.09	%
Multifamily	103,783	21.13	%	123,791	21.25	%
Commercial real estate	219,478	44.69	%	243,786	41.84	%
Construction	37,396	7.61	%	78,055	13.40	%
Business	52,542	10.70	%	53,561	9.19	%
Consumer and other [(1)]	1,280	0.26	%	1,349	0.23	%
Total loans receivable	491,153	100.00	%	582,603	100.00	%
Add:						
Premium on loans	108			120		
Less:						
Deferred fees and loan discounts	(2,309)			(2,420)		
Allowance for loan losses	(21,429)			(23,147)		
Total loans receivable, net	$467,523			$557,156		

(1) Includes personal, credit card, and home improvement.

(2) Substantially all of the Bank's real estate loans receivable are principally secured by properties located in New York City. Accordingly, as with most financial institutions in the market area, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in the market conditions in this area.

The following is an analysis of the allowance for loan losses and loans receivable as of and for the six month period ended September 30, 2011 (in thousands).

Table of Contents

	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 2,923	$ 6,223	$ 3,999	$ 6,944	$ 2,965	$ 93	$ —	$ 23,147
Charge-offs:	(728)	(4,081)	(3,572)	(5,205)	(398)	—	—	(13,984)
Recoveries:	—	—	2	1	102	—	—	105
Provision for Loan Losses	1,111	5,244	5,435	841	(742)	30	242	12,161
Ending Balance	$ 3,306	$ 7,386	$ 5,864	$ 2,581	$ 1,927	$ 123	$ 242	$ 21,429
Ending Balance: collectively evaluated for impairment	2,709	6,941	5,382	2,313	1,847	123	242	19,557
Ending Balance: individually evaluated for impairment	597	444	482	269	129	—		1,921
Loan Receivables Ending Balance:	$ 76,627	$ 103,683	$ 217,934	$ 37,358	$ 51,995	$ 1,355		$ 488,952
Ending Balance: collectively evaluated for impairment	67,120	96,600	206,177	16,780	46,010	1,355		434,042
Ending Balance: individually evaluated for impairment	9,507	7,083	11,757	20,578	5,985	—		54,910

The following is an analysis of the allowance for loan losses as of and for the six month period ended September 30, 2010 (in thousands).

	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 1,094	$ 1,566	$ 2,613	$ 4,059	$ 2,208	$ 60	$ 400	$ 12,000
Charge-offs:	(136)	(1,899)	(353)	(4,003)	(2,286)	—	—	(8,677)
Recoveries:	—		—	—	15	10		25
Provision for Loan Losses	(815)	(3,655)	(1,918)	(5,122)	(2,975)	8	400	(14,077)

Ending Balance	$1,773	$ 3,322	$4,178	$5,178	$2,912	$62		$17,425

Table of Contents

The following is an analysis of the loan receivables as of March 31, 2011 (in thousands).

	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Total
Ending Balance: collectively evaluated for impairment	$2,316	$ 5,510	$3,840	$4,379	$2,832	$93	$18,970
Ending Balance: individually evaluated for impairment	607	713	159	2,565	133	—	4,177
Loan Receivables Ending Balance :	81,988	123,571	242,317	78,017	53,060	1,350	580,303
Ending Balance: collectively evaluated for impairment	70,679	116,064	233,697	41,454	46,789	1,350	510,033
Ending Balance: individually evaluated for impairment	11,309	7,507	8,620	36,563	6,271	—	70,270

The following is a summary of non-performing loans at September 30, and March 31, 2011 (in thousands).

	September 30, 2011	March 31, 2011
Loans accounted for on a non-accrual basis:		
Gross loans receivable:		
One- to four-family	$14,335	$15,993
Multifamily	9,106	6,786
Commercial real estate	16,088	10,078
Construction	31,526	37,218
Business	7,831	7,289
Consumer	36	42
Total non-accrual loans	$78,922	$77,406

Non-performing loans decreased to $78.9 million at September 30, 2011. During the quarter ended September 30, 2011, 17 non-performing loans with a net book value of $32.3 million and a fair market value of $26.7 million were moved to Held for Sale. During the quarter ended June 30, 2011, 2 non-performing loans with a net book value of $2.6 million and a fair market value of $1.5 million were moved to Held for Sale.

Non-performing loans at September 30, 2011, were comprised of $59.4 million of loans 90 days or more past due and non-accruing, $4.0 million of loans that are either performing or less than 90 days past due and have been deemed to be impaired and $15.6 million of loans classified as a troubled debt restructuring and either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months.

Non-performing loans at March 31, 2011, were comprised of $48.8 million of loans 90 days or more past due and non-accruing, $4.9 million of loans that are either performing or less than 90 days past due and have been deemed to be impaired and $23.8 million of loans classified as a troubled debt restructuring and either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months.

The Bank utilizes an internal loan classification system as a means of reporting problem loans within its loans categories. Loans may be classified as "Pass", “Special Mention”, “Substandard”, “Doubtful”, and “Loss.” Loans rated Pass have demonstrated satisfactory asset quality, earning history, liquidity, and other adequate margins of creditor protection. They represent a moderate credit risk and some degree of financial stability. Loans are considered collectible in full, but perhaps require greater than average amount of loan officer attention. Borrowers are capable of absorbing normal setbacks without failure. Loans rated Special Mention

Table of Contents

have a potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Loans rated Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans rated Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged-off immediately to the allowance for loan losses.

One-to-Four Family Residential Loans and Consumer and Other Loans are rated non-performing if they are delinquent in payments ninety or more days, a troubled debt restructuring with less than six months contractual performance and loans past maturity. All other One-to-Four Family Residential Loans and Consumer and Other Loans are performing loans.

As of September 30, 2011, and based on the most recent analysis performed, the risk category by class of loans is as follows (in thousands):

	Multi-Family Mortgage	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$93,091	$174,702	$5,264	$35,594
Special Mention	3,134	23,795	246	4,439
Substandard	7,458	19,437	31,848	11,448
Doubtful	—	—	—	514
Loss	—	—	—	—
Total	$103,683	$217,934	$37,358	$51,995

	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$61,635	$1,190
Non-Performing	15,039	90
Total	$76,674	$1,280

17

Table of Contents

As of March 31, 2011, and based on the most recent analysis performed, the risk category by class of loans is as follows (in thousands):

	Multi-Family Mortgage	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$110,837	$199,581	$—	$39,017
Special Mention	2,126	8,726	25,105	3,857
Substandard	3,101	25,099	16,349	3,787
Doubtful	—	291	—	128
Total	$116,064	$233,697	$41,454	$46,789

	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$65,995	$1,308
Non-Performing	15,993	42
Total	$81,988	$1,350

The following table presents an aging analysis of the recorded investment of past due financing receivable as of September 30, 2011 (in thousands).

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Impaired (1)	TDR (2)	Current (3), (4)	Total Financing Receivables
One-to-four family residential	$—	$704	$4,904	$5,608	$—	$9,431	$61,635	$ 76,674
Multi-family mortgage	—	1,765	8,909	10,674	—	197	92,912	103,783
Commercial real estate	—	7,809	8,049	15,858	2,924	5,115	195,581	219,478
Construction	3,027	—	31,526	34,553	—	—	2,843	37,396
Business	—	519	5,940	6,459	1,042	831	44,210	52,542
Consumer and other	36	18	36	90	—		1,190	1,280
Total	$3,063	$10,815	$59,364	$73,242	$3,966	$15,574	$398,371	$ 491,153

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

(2) $15.6 million have not performed in accordance with their modified terms for more than six months and are considered non performing.

(3) Includes $0.4 million TDR loan that has performed in accordance with its modified terms for at least six months and is considered performing.

(4) There were no loans that are 90 days or more past due as to interest and principal and still accruing at September 30, 2011.

18

Table of Contents

The following table presents an aging analysis of the recorded investment of past due financing receivable as of March 31, 2011. Also included are loans that are 90 days or more past due as to interest and principal and still accruing because they are well-secured and in the process of collection (in thousands).

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Impaired [1]	TDR [2]	Current [3], [4]	Total Financing Receivables
One-to-four family residential	$4,852	$601	$4,859	$10,312	$—	$11,134	60,542	81,988
Multi-family mortgage	6,866	—	5,452	12,318	1,135	200	109,918	123,571
Commercial real estate	12,360	5,457	3,095	20,912	442	6,541	214,422	242,317
Construction	19,509	—	32,158	51,667	923	4,137	21,290	78,017
Business	7,981	117	3,175	11,273	2,362	1,752	37,673	53,060
Consumer and other	15	37	42	94	—	—	1,256	1,350
Total	$51,583	$6,212	$48,781	$106,576	$4,862	$23,764	$445,101	$580,303

(1) Consists of loans which are less than 90 days past due but impaired due to other risk characteristics.
(2) $23.7 million have not performed in accordance with their modified terms for more than six months and are considered non performing. Currently they are represented in the following TDR categories:
$17.4 million loans are non accrual as they are not performing in accordance with their modified terms
$5.8 million are 30-59 days past due.
$0.5 million loans are 60-89 days past due.
(3) Includes $0.4 million TDR loan that has performed in accordance with its modified terms for at least six months and is considered performing.
(4) There were no loans that are 90 days or more past due as to interest and principal and still accruing at March 31, 2011.

Table of Contents

The following table presents the recorded investment and unpaid principal balances for impaired loans and TDR loans ($15.6 million) with the associated allowance amount, if applicable. Management determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Impaired Loans by Class
As of and for the six month period ended September 30, 2011
(In thousands)

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Balance	Interest income recognized
With no specific allowance recorded:					
One-to-four family residential	$2,172	$2,284		$2,173	$36
Multi-family mortgage	197	197		197	15
Commercial real estate	3,957	3,957		3,958	4
Construction	16,479	19,091		17,307	680
Business	4,383	4,383		2,435	106
Consumer and other	—	—		—	—
Total	$27,188	$29,912		$26,070	$841
With an allowance recorded:					
One-to-four family residential	$7,335	$8,216	$597	$7,624	$61
Multi-family mortgage	6,886	9,331	444	8,010	70
Commercial real estate	7,798	9,030	482	8,622	99
Construction	4,100	5,128	269	4,497	—
Business	1,601	1,811	129	1,607	71
Consumer and other	—	—			
Total	$27,720	$33,516	$1,921	$30,360	$301
One-to-four family residential	$9,507	$10,500	$597	$9,797	$97
Multi-family mortgage	7,083	9,528	444	8,207	85
Commercial real estate	11,755	12,987	482	12,580	103
Construction	20,579	24,219	269	21,804	680
Business	5,984	6,194	129	4,042	177
Consumer and other	—	—	—	—	—
Total	$54,908	$63,428	$1,921	$56,430	$1,142

20

Table of Contents

Impaired Loans by Class
As of March 31, 2011
(In thousands)

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:			
One-to-four family residential	$3,752	$3,869	
Multi-family mortgage	814	844	
Commercial real estate	5,266	5,266	
Construction	12,567	14,602	
Business	4,651	4,651	
Consumer and other	—	—	
Total	$27,050	$29,232	
With an allowance recorded:			
One-to-four family residential	$7,557	$8,209	$607
Multi-family mortgage	6,693	7,108	713
Commercial real estate	3,354	3,800	159
Construction	23,996	27,486	2,565
Business	1,620	1,830	133
Consumer and other	—	—	
Total	$43,220	$48,433	$4,177
One-to-four family residential	$11,309	$12,078	$607
Multi-family mortgage	7,507	7,922	713
Commercial real estate	8,620	9,066	159
Construction	36,563	42,088	2,565
Business	6,271	6,481	133
Consumer and other	—	—	
Total	$70,270	$77,635	$4,177

In certain circumstances, loan modifications involve a troubled borrower to whom the Bank may grant a modification. Situations around modifications involving troubled borrowers may include extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, reduction in the face amount of the debt or reduction of past accrued interest. In cases where the Bank grants any such concession to a troubled borrower, the Bank accounts for the modification as a TDR under

ASC 310-40 and the related allowance under ASC 310-10-35. Loans modified in TDRs are placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months.

The following table presents an analysis of those loan modifications that were classified as non performing TDRs during the three and six month period ended September 30, 2011 (in thousands)

	Modifications to loans during the three month period ended September 30, 2011			Modifications to loans during the six month period ended September 30, 2011		
	Number of loans	Pre-modification outstanding recorded investment	Recorded investment at September 30, 2011	Number of loans	Pre- modification outstanding recorded investment	Recorded investment at September 30, 2011
One-to-four family residential	1	$1,850	$1,709	1	$1,850	$1,709
Multi-family mortgage	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Construction	—	—	—	—		—
Business	3	2,340	2,211	3	2,340	2,211
Consumer and other	—	—	—	—	—	—
Total	4	$4,190	$3,920	4	$4,190	$3,920

In an effort to proactively manage delinquent loans, Carver has selectively extended to certain borrowers concessions such as rate reductions or forbearance agreements. At September 20, 2011, loan on which concessions were made with respect to rate reductions were $1.7 million and those loans which reached forbearance agreements totaled $2.2 million.

For the twelve month period ended September 30, 2011, Carver did not have any loans that had been modified and subsequently defaulted.

TDR's are factored into the determination of the allowance for loan losses. The Company has allocated approximately $141,000 of the loan loss allowance at September 30, 2011 for those TDRs modified within the last six months.

NOTE 9. INCOME TAXES

The components of income tax expense for the six months ended September 30, 2011 are as follows (in thousands):

Table of Contents

	September 30, 2011
Federal income tax expense (benefit):	
Current	$—
Deferred	(4,945)
Valuation Allowance	4,945
	—
State and local income tax expense (benefit):	
Current	76
Deferred	(1,061)
Valuation Allowance	1,061
	76
Total income tax expense:	$76

The following is a reconciliation of the expected Federal income tax rate to the consolidated effective tax rate for the six months ended September 30, 2011 (dollars in thousands):

	September 30, 2011	
	Amount	Percent
Statutory Federal income tax	$(5,271)	34%
State and local income taxes, net of Federal tax benefit	(649)	4%
General business credit	(16)	—%
Valuation allowance	6,005	(39)%
Other	7	—%
Total income tax expense	$76	(1)%

Carver Federal stockholders' equity includes a $0.1 million tax expense for the period ended September 30, 2011, which has been segregated for federal income tax purposes as a bad debt reserve.

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 expects to be subject to an annual limitation of approximately $0.9 million. The Company has filed an extension for its tax return for the fiscal year ended March 31, 2011 and has not yet determined the potential tax attributes that may be subject to limitation under Section 382. The company has a net deferred tax asset ("DTA") of approximately $25 million. A full valuation allowance for the DTA has been recorded. Due to the Section 382 limitation, some portion of the DTA may not be recoverable in future years.

At March 31, 2011, the Company had net operating carryovers for state purposes of approximately $5.3 million which are available to offset future state income and which expire over varying periods from March 2028 through March 2029.

The Company has no uncertain tax positions. The Company and its subsidiaries are subject to U.S. Federal, New York State and New York City income taxation. The Company is no longer subject to examination by taxing authorities for years before March 31, 2006. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

NOTE 10. FAIR VALUE MEASUREMENTS

Table of Contents

Accounting literature ASC 820 clarifies that fair value is an "exit" price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1— Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2— Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3— Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following table presents, by valuation hierarchy, assets that are measured at fair value on a recurring basis as of September 30, 2011 and March 31, 2011, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

	Fair Value Measurements at September 30, 2011, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Mortgage servicing rights	$—	$—	$521	$521
Investment securities:				
Available for sale:				
U.S. Treasuries	2,809			2,809
Government National Mortgage Association		27,799	—	27,799
Federal Home Loan Mortgage Corporation		1,694	—	1,694
Federal National Mortgage Association		3,894	—	3,894
Other		21,327	52	21,379
Total available for sale securities	$2,809	$54,714	$52	$57,575
Total assets	$2,809	$54,714	$573	$58,096

Table of Contents

	Fair Value Measurements at March 31, 2011, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	(in thousands)			
Assets:				
Mortgage servicing rights	$—	$—	$626	$626
Investment securities:				
Available for sale:				
U.S. Treasuries	2,544			2,544
Government National Mortgage Association		30,197		30,197
Federal Home Loan Mortgage Corporation	—	1,851	—	1,851
Federal National Mortgage Association	—	4,223		4,223
Other	—	14,691	45	14,736
Total available for sale securities	$2,544	$50,962	$45	$53,551
Total assets	$2,544	$50,962	$671	$54,177

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights. Level 3 assets accounted for 0.1% of the Company's total assets at September 30, 2011 and March 31, 2011.

The Company reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next that are related to the observable inputs to a fair value measurement may result in a reclassification from one hierarchy level to another.

A description of the methods and significant assumptions utilized in estimating the fair value of available-for-sale securities and mortgage servicing rights ("MSR") follows:

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and exchange-traded securities.

If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices, and credit spreads. In addition to market information, models also incorporate transaction details, such as maturity and cash flow assumptions. Securities valued in this manner would generally be classified within Level 2 of the valuation hierarchy and primarily include such instruments as mortgage-related securities and corporate debt.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. In valuing certain securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. Quoted price information for MSR is not available. Therefore, MSR are valued using market-standard models to model the specific cash flow structure. Key inputs to the model consist of principal balance of loans being serviced, servicing fees and prepayment rate.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Table of Contents

The following table presents information for assets classified by the Company within Level 3 of the valuation hierarchy for the six months ended September 30, 2011 and 2010:

(in thousands)	Mortgage Servicing Rights	Securities Available for Sale
Beginning balance, April 1, 2011	$626	$45
Additions	—	7
Unrealized loss	(105)	—
Ending balance, September 30, 2011	$521	$52

(in thousands)	Mortgage Servicing Rights	Securities Available for Sale
Beginning April 1, 2010	$721	$141
Sales	—	(96)
Unrealized loss	(115)	—
Ending balance, September 30, 2010	$606	$45

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g. when there is evidence of impairment). The following table presents assets and liabilities that were measured at fair value on a non-recurring basis as of September 30, 2011 and March 31, 2011 and that are included in the Company's Consolidated Statements of Financial Condition as these dates:

	Fair Value Measurements at September 30, 2011, Using			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Held For Sale Loans	$—	$39,369	$—	$39,369
Impaired loans with a specific reserve allocated	$—	$25,800	$—	$25,800

	Fair Value Measurements at March 31, 2011, Using			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Held For Sale Loans	$—	$9,205	$—	$9,205
Impaired loans with a specific reserve allocated	$—	$38,962	$—	$38,962

Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held for sale for the period ended September 30, 2011 was based upon offered purchase prices, broker price opinions or discounted cash flows.

The fair value of collateral-dependent impaired loans are determined using various valuation techniques, including consideration of appraised values and other pertinent real estate market data.

NOTE 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

According to current GAAP, disclosures regarding the fair value of financial instruments are required to include, in addition to the carrying value, the fair value of certain financial instruments, both assets and liabilities recorded on and off balance sheet, for which it is practicable to estimate fair value. Accounting guidance defines financial instruments as cash, evidence of

Table of Contents

ownership of an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument. The fair value of a financial instrument is discussed below. In cases where quoted market prices are not available, estimated fair values have been determined by the Bank using the best available data and estimation methodology suitable for each such category of financial instruments. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate their recorded carrying value. The estimated fair values and carrying values of the Bank's financial instruments and estimation methodologies are set forth below:

The carrying amounts and estimated fair values of the Bank's financial instruments at September 30, 2011 and March 31, 2011 are as follows (in thousands):

	September 30, 2011		March 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$69,425	$69,425	$44,077	$44,077
Restricted Cash	6,275	6,275	—	—
Securities available-for-sale	57,575	57,575	53,551	53,551
FHLB Stock	2,844	2,844	3,353	3,353
Securities held-to-maturity	11,901	12,552	17,697	18,124
Loans receivable	467,523	469,995	557,156	572,059
Loans Held For Sale	39,369	39,369	9,205	9,205
Accrued interest receivable	2,483	2,483	2,854	2,854
Mortgage servicing rights	521	521	626	626
Financial Liabilities:				
Deposits	$499,822	$486,361	$560,698	$536,046
Advances from FHLB of New York	40,042	40,385	50,057	50,372
Repurchase agreement	30,000	30,002	30,000	29,970
Other borrowed money	32,471	32,959	32,471	30,895

Cash and cash equivalents and accrued interest receivable

The carrying amounts for cash and cash equivalents and accrued interest receivable approximate fair value because they mature in three months or less.

Restricted cash

The carrying amounts for restricted cash approximates fair value.

Securities

The fair values for securities available-for-sale, mortgage-backed securities held-to-maturity and investment securities held-to-maturity are based on quoted market or dealer prices, if available. If quoted market or dealer prices are not available, fair value is estimated using quoted market or dealer prices for similar securities.

FHLB Stock

The fair value of FHLB stock approximates the carrying amount, which is at cost.

Loans receivable

The fair value of loans receivable is estimated by discounting future cash flows, using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities of such loans. The method used to estimate the fair value of loans is extremely sensitive to the assumptions and estimates used. While management has attempted to use assumptions and estimates that best reflect the Company's loan portfolio and current market conditions, a greater degree of objectivity is inherent in these values than in those determined in active markets. The loan valuations thus determined do not necessarily represent an "exit" price that would be achieved in an active market.

27

Table of Contents

Loans held-for-sale
Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held for sale are based upon offered purchase prices, broker price opinions or discounted cash flows.
Mortgage servicing rights
The fair value of mortgage servicing rights is determined by discounting the present value of estimated future servicing cash flows using current market assumptions for prepayments, servicing costs and other factors.
Deposits

The fair value of demand, savings and club accounts is equal to the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.
Advances from FHLB-NY and other borrowed money

The fair values of advances from the Federal Home Loan Bank of New York and other borrowed money are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities.
Repurchase agreements
The fair values of advances from Repurchase agreements are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities.
Commitments to Extend Credits, Commercial, and Standby Letters of Credit
The fair value of the commitments to extend credit was estimated to be insignificant as of September 30, 2011 and March 31, 2011. The fair value of commitments to extend credit and standby letters of credit was evaluated using fees currently charged to enter into similar agreements, taking into account the risk characteristics of the borrower, and estimated to be insignificant as of the reporting date.
Limitations

The fair value estimates are made at a discrete point in time based on relevant market information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no quoted market value exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In addition, the fair value estimates are based on existing off balance sheet financial instruments without attempting to value anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.

NOTE 12. VARIABLE INTEREST ENTITIES

28

Table of Contents

The Company's subsidiary, Carver Statutory Trust I, is not consolidated with Carver Bancorp Inc. for financial reporting purposes. Carver Statutory Trust I was formed in 2003 for the purpose of issuing $13.0 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 (“Capital Securities”) and $0.4 million of common securities (which are the only voting securities of Carver Statutory Trust I), which are 100% owned by Carver Bancorp Inc., and using the proceeds to acquire Junior Subordinated Debentures issued by Carver Bancorp Inc. Carver Bancorp Inc. has fully and unconditionally guaranteed the Capital Securities along with all obligations of Carver Statutory Trust I under the trust agreement relating to the Capital Securities.

The Bank's subsidiary, Carver Community Development Corporation (“CCDC”), was formed to facilitate its participation in local economic development and other community-based activities. Per the NMTC Award's Allocation Agreement between the CDFI Fund and CCDC, CCDC is permitted to form and sub-allocate credits to subsidiary Community Development Entities (“CDEs”) to facilitate investments in separate development projects.

The VIE's are consolidated, as required, where Carver has controlling financial interest in these entities and is deemed to be the primary beneficiary. Carver is normally deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

(a) the power to direct activities of a VIE that most significantly impact the entities economic performance; and

(b) the obligation to absorb losses of the entity that could benefit from the entities that could potentially be significant to the VIE.

The Bank's involvement with VIEs, consolidated and unconsolidated, in which the company holds significant variable interests or has continuing involvement through servicing a majority of assets in a VIE is presented below:

	Involvement with SPE (000's)					Funded Exposure		Unfunded Exposure		Total
	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments	Funding Commitments	Maximum exposure to loss	
Carver Statutory Trust 1	$—	$—	$ —	$ 13,400	$ 13,400	$13,000	$ 400	$—	$—	$13,400
CDE 1-9, CDE 11-12	—	40,000	40,101	—	40,101	—	6,701	—	7,800	14,501
CDE 10	1,700	19,000	—	17,377	17,377	—	—	—	7,400	7,400
CDE 13	500	10,500	—	10,585	10,585	—	1	—	4,100	4,101
CDE 14	400	10,000	—	10,096	10,096	—	1	—	3,900	3,901
CDE 15, CDE 16, CDE 17	500	20,500	—	20,996	20,996	—	2	—	8,000	8,002
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,200	5,201
CDE 19	500	10,746	—	10,805	10,805	—	1	—	4,200	4,201
Total	$4,200	$124,000	$ 40,101	$ 96,541	$ 136,642	$13,000	$ 7,107	$—	$40,600	$60,707

The Bank was originally awarded $59.0 million of NMTC. In fiscal 2008, the Bank transferred $19.0 million of rights to an investor in a NMTC project. The entity was called CDE-10.

With respect to the remaining $40 million of the original NMTC award, the Bank has established various special purpose entities (CDE's 1-9,11-12) through which its investments in NMTC eligible activities are conducted. As the Bank is exposed to all of the expected losses and residual returns from these investments, under ASC topic 810 the Bank has determined is has a controlling financial interest and is the primary beneficiary of these entities. During December 2010 Carver transferred its equity ownership in the CDEs and the associated rights to an investor in exchange for $6.7 million in cash.
As a result, the CDEs continues to be consolidated and the investor's equity investment of $6.7 million was reflected as non-

controlling interest in the Statement of Financial Condition. The sale of the equity interest in the CDEs provides the investor with rights to the new market tax credit on a prospective basis. A portion of non-controlling interest is transferred to the controlling interest as the investor earns the tax credits. Under the current arrangement, the Bank has a contingent obligation to reimburse the investor for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the investor's ability to otherwise utilize tax credits stemming from the award.

In May 2009, the Bank received a second NMTC award in the amount of $65 million. During the period from December 2009 to June 2010, the Bank transferred rights to investors in NMTC projects (entities CDE 13-19). These entities have been reviewed for possible consolidation under the accounting guidance related to variable interest entities and have found to not be consolidated for financial statement reporting purposes as Carver does not have the power to direct the activities that most significantly impact its economic performance. The Bank has a contingent obligation to reimburse the investor for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the investor's ability to otherwise utilize tax credits stemming from the award

In August 2011, the Bank received a third NMTC award in the amount of $25 million. The Bank has established various special purpose entities (CDE's 20-25) through which its investments in NMTC eligible activities will be conducted. As of September 30, 2011, no investments have been made related to this allocation.

NOTE 13. IMPACT OF ACCOUNTING STANDARDS AND INTERPRETATIONS

In April 2011, the FASB issued a revision to earlier guidance for accounting for troubled debt restructurings (ASU 2011-02). The ASU clarifies the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties, such as:

- Creditors cannot assume that debt extensions at or above a borrower's original contractual rate do not constitute troubled debt restructurings.
- If a borrower doesn't have access to funds at a market rate for debt with characteristics similar to the restructured debt, that may indicate that the creditor has granted a concession.
- A borrower that is not currently in default may still be considered to be experiencing financial difficulty when payment default is considered probable in the foreseeable future.

The guidance became effective on June 15, 2011 and has been applied retrospectively to restructurings occurring on or after April 1, 2011. The adoption of this guidance did not have a material effect on the Company's consolidated statement of financial condition or results of operations.

In July 2010, the FASB issued guidance related to disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, ASU No. 2010-20, Receivables (Topic 310) which requires significant new disclosures about the credit quality of financing receivables and the allowance for credit losses. The objective of these disclosures is to improve financial statement users' understanding of (i) the nature of an entity's credit risk associated with its financing receivables and (ii) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. The required disclosures include, among other things, a roll forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU No. 2010-20 disclosures related to period-end information (e.g., credit-quality information and the ending financing receivables balance segregated by impairment method) were required in all interim and annual reporting periods ending on or after December 15, 2010. Disclosures of activity that occurs during a reporting period (e.g., modifications and the roll forward of the allowance for credit losses by portfolio segment) were required in interim or annual periods beginning on or after December 15, 2010. The required disclosures for the period have been included in footnote 8 to the financial statements.

Accounting Standard Update ("ASU") No. 2010-06 under ASC Topic 820, "Fair Value Measurements and Disclosures," requires new disclosures and clarifies certain existing disclosure requirements about fair value measurement. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using Level 3

Table of Contents

inputs. In addition, the update clarifies the following requirements of the existing disclosures: (i) for the purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy were adopted by 'The Company' on January 1, 2011. The remaining disclosure requirements and clarifications made by ASU No. 2010-06 became effective for 'the Company' on April 1, 2010. In May 2011, the FASB issued guidance which results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. This guidance is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance is not expected to have a material effect on the Company's consolidated statement of condition or results of operations.

In April 2011, the FASB issued guidance to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments to this guidance remove from the assessment of effective control: (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by this new guidance. Those criteria indicate that the transferor is deemed to have maintained effective control over the financial assets transferred (and thus must account for the transaction as a secured borrowing) for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all of the following conditions are met: (1) the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (2) the agreement is to repurchase or redeem them before maturity, at a fixed or determinable price; and (3) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of this guidance is not expected to have a material effect on the Company's consolidated statement of condition or results of operations.

In June 2011, the Financial Accounting Standards Board (“FASB”) issued guidance regarding the presentation of comprehensive income. Under this guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. It does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. The Company is currently evaluating the potential impact of adopting the ASU.

NOTE 14. SUBSEQUENTS EVENTS

In accordance with ASC Topic 855, the Company has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and notes thereto have taken place through the date these financial statements were issued.

On October 18, 2011 Carver received approval from the Federal Reserve Bank to pay all outstanding dividend payments on the Company's Series B preferred stock issued under the TARP CPP.

On October 25, 2011 Carver's shareholders voted and approved a 1 for 15 reverse stock split. A separate vote of approval was given to convert the Series C preferred stock to 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 2,321,286 shares of Carver common stock and the Series C preferred stock converted into 1,208,039 shares of Carver common stock and 45,118 shares of Series D preferred stock.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

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

- the ability to continue to comply with the Orders and the effects of the restrictions upon operations set forth in the orders
- general economic conditions, either nationally or locally in some or all areas in which business is conducted, or conditions in the real estate or securities markets or the banking industry which could affect liquidity in the capital markets, the volume of loan origination, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses;
- changes in existing loan portfolio composition and credit quality, and changes in loan loss requirements;
- legislative or regulatory changes which may adversely affect the Company's business, including but not limited to the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- the Company's success in implementing its new business initiatives, including expanding its product line, adding new branches and ATM centers and successfully building its brand image;
- changes in interest rates which may reduce net interest margin and net interest income;
- increases in competitive pressure among financial institutions or non-financial institutions;
- technological changes which may be more difficult to implement or expensive than anticipated;
- changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities which may adversely affect the business;
- changes in accounting principles, policies or guidelines which may cause conditions to be perceived differently;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, which may delay the occurrence or non-occurrence of events longer than anticipated;
- the ability to originate and purchase loans with attractive terms and acceptable credit quality;
- the ability to attract and retain key members of management; and
- the ability to realize cost efficiencies
- the ability to utilize NMTC.

Any or all of the Company's forward-looking statements in this Quarterly Report on Form 10-Q and in any other public statements that the Company or management makes may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date of this Quarterly Report on Form 10-Q, 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 "(Part I. Financial Information) Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and "(Part II. Other information) Item 1A — Risk Factors.

Overview

Carver Bancorp, Inc., a Delaware corporation (the "Holding Company", or "Registrant") is the holding company for Carver Federal Savings Bank ("Carver Federal" or the "Bank"), a federally chartered savings bank, and, on a parent-only basis, had minimal results of operations. The Holding Company is headquartered in New York, New York. The Holding Company conducts business as a unitary savings and loan holding company, and the principal business of the

Holding Company consists of the operation of its wholly-owned

33

Table of Contents

subsidiary, Carver Federal. Carver Federal was founded in 1948 to serve African-American communities whose residents, businesses and institutions had limited access to mainstream financial services. The Bank remains headquartered in Harlem, and predominantly all its nine branches and nine stand-alone 24/7 ATM Centers are located in low- to moderate-income neighborhoods. Many of these historically underserved communities have experienced unprecedented growth and diversification of incomes, ethnicity and economic opportunity, after decades of public and private investment.
Carver Federal is the largest African-American operated bank in the United States. The Bank remains dedicated to expanding wealth enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank’s “Outstanding” rating, awarded by the OTS following its most recent Community Reinvestment Act (“CRA”) examination in 2009. The examination report noted that 76.1% of Carver’s community development lending and 55.4% of Carver’s Home-Owners Mortgage Disclosure Act (“HMDA”) reportable loan originations were within low- to moderate-income geographies, which far exceeded peer institutions. The Bank had approximately $678 million in assets as of September 30, 2011 and employed approximately 130 employees as of September 30, 2011.

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

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

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

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

The Bank formalized its many community focused investments on August 18, 2005, by forming Carver Community Development Corporation ("CCDC"). CCDC oversees the Bank's participation in local economic development and other community-based initiatives, including financial literacy activities. CCDC coordinates the Bank's development of an innovative approach to reach the unbanked customer market in Carver Federal's communities. Importantly, CCDC spearheads the Bank's applications for grants and other resources to help fund these important community activities. In this connection, Carver Federal has successfully competed with large regional and global financial institutions in a number of competitions for government grants and other awards.

New Markets Tax Credit Award

The NMTC award is used to stimulate economic development in low- to moderate-income communities. The NMTC award enables the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating the revitalization of the community, pursuant to the goals of the NMTC program. The NMTC award provides a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. The credits are allocated over seven years from the time of the qualified

Table of Contents

investment.

In June 2006, Carver Federal was selected by the U.S. Department of Treasury, in a highly competitive process, to receive its first award of $59 million in New Markets Tax Credits. Carver Federal invested a portion of its award in December 2006 and by December 2008 the Banks allocation was fully invested. In December 2010, the Bank divested its interest in the remaining $7.8 million NMTC tax credits that it would have received through the period ending March 31, 2014, by exchanging its equity interests in the special purpose entities holding the qualified investments for a cash payment of $6.7 million from a special purposes entity, controlled by an unrelated investor, set up to acquire these equity interests. CCDC continues to provide certain administrative services to the special purpose entity that acquired the equity interests. In addition, Carver still provides the funding to the underlying projects.

In May 2009, the Bank received its second award of $65 million. During the period of December 2009 to June 2010, the Bank transferred rights to an investor in various NMTC projects. While providing funding to the investments in the NMTC projects, CCDC has retained a 0.01%interest in other entities created to facilitate the investment with the investors owning the remaining 99.99%. CCDC also provides certain administrative services to these special purpose entities. The Bank has determined that it and CCDC do not have the sole power to direct activities of these special purpose entities that significantly impact their performance therefore it is not the primary beneficiary of these entities.

In February 2011, the Company announced that Carver Federal had been selected to receive its third NMTC award in the amount of $25 million.

The Bank's involvement with VIEs, consolidated and unconsolidated, in which the company holds significant variable interests or has continuing involvement through servicing a majority of assets in a VIE is presented below:

Involvement with SPE (000's)						Funded Exposure		Unfunded Exposure		Total
	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments	Funding Commitments	Maximum exposure to loss	
Carver Statutory Trust 1	$ —	$—	$ —	$ 13,400	$ 13,400	$13,000	$ 400	$—	$—	$13,400
CDE 1-9, CDE 11-12	—	40,000	40,101	—	40,101	—	6,701	—	7,800	14,501
CDE 10	1,700	19,000	—	17,377	17,377	—	—	—	7,400	7,400
CDE 13	500	10,500	—	10,585	10,585	—	1	—	4,100	4,101
CDE 14	400	10,000	—	10,096	10,096	—	1	—	3,900	3,901
CDE 15, CDE 16, CDE 17	500	20,500	—	20,996	20,996	—	2	—	8,000	8,002
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,200	5,201
CDE 19	500	10,746	—	10,805	10,805	—	1	—	4,200	4,201

Total	$ 4,200	$ 124,000	$ 53,501	$ 83,141	$ 136,642	$ 13,000	$ 7,108	$—	$ 40,600	$ 60,708

Critical Accounting Policies

Note 2 to the Company's audited Consolidated Financial Statements for fiscal year-end 2011 included in its 2011 Form 10-K, as supplemented by this report, contains a summary of significant accounting policies and is incorporated by reference. The Company believes its policies, with respect to the methodology for determining the allowance for loan losses, the evaluation of realization of deferred tax assets and the fair value of financial instruments involve a high degree of complexity and require management to make subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes

Table of Contents

in these judgments, assumptions or estimates could cause reported results to differ materially. The following description of these policies should be read in conjunction with the corresponding section of the Company’s fiscal 2011 Form 10-K.

Allowance for Loan Losses

The adequacy of the Bank's ALLL is determined, in accordance with the Interagency Policy Statement on the Allowance for Loan and Lease Losses (the “Interagency Policy Statement”) released by the Office of Thrift Supervision on December 13, 2006 and in accordance with Accounting Standards Codification (“ASC”) Topic 450 and ASC Topic 310. Compliance with the Interagency Policy Statement includes management's review of the Bank's loan portfolio, including the identification and review of individual problem situations that may affect a borrower's ability to repay. In addition, management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral, current charge-offs and other factors that may affect the portfolio, including a review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio are all taken into consideration.

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is a great amount of judgment applied to developing the ALLL. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential embedded in a loan portfolio. Any change in the judgments utilized to develop the ALLL can change the ALLL. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans.

General Reserve Allowance

Carver's maintenance of a general reserve allowance in accordance with ASC Topic 450 includes Carver's evaluating the risk to loss potential of pools of loans based upon a review of 10 different factors that are then applied to each pool. The pools of loans (“Loan Type”) are:

1-4 Family
Construction
Multifamily
Commercial Real Estate
Business Loans
SBA Loans
Other (Consumer and Overdraft Accounts)

The pools are further segregated into the following risk rating classes:

Pass and Pass with Care
Special Mention
Substandard
Doubtful

The Bank next applies to each pool a risk factor that determines the level of general reserves for that specific pool. The risk factors are comprised of actual losses for the most recent four quarters as a percentage of each respective Loan Type plus qualitative factors. As the loss experience for a Loan Type increases or decreases, the level of reserves required for that particular Loan Type also increases or decreases. Because actual loss experience may not adequately predict the level of losses embedded in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be increased based upon any of those factors. As the risk ratings worsen some of the qualitative factors tend to increase. The nine qualitative factors the Bank considers and may utilize are:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses (Policy & Procedures).
2. Changes in relevant economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments. (Economy).
3. Changes in the nature or volume of the loan portfolio and in the terms of loans (Nature & Volume).
4. Changes in the experience, ability, and depth of lending management and other relevant staff (Management).
5. Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans (Problem Assets).
6. Changes in the quality of the loan review system (Loan Review).

Table of Contents

7. Changes in the value of underlying collateral for collateral-dependent loans (Collateral Values).
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations (Concentrations).
9. The effect of other external forces such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio (External Forces).

Specific Reserve Allowance

Carver also maintains a specific reserve allowance for Criticized & Classified loans individually reviewed for impairment in accordance with ASC Topic 310 guidelines and deemed to be impaired. ASC Topic 310 (formerly known as SFAS No. 114) is the primary basis for determining if a loan is impaired, and if impaired, valuing the impairment amount of specific loans whose collectability has been called into question. The amount assigned to this aspect of the ALLL is the individually-determined (i.e., loan-by-loan) portion thereof. The standard requires the use of one of three approved methods to estimate the amount to be reserved and/or charged off for such credits. The three methods are as follows:

1. The present value of expected future cash flows discounted at the loan's effective interest rate,
2. The loan's observable market price, or
3. The fair value of the collateral if the loan is collateral dependent.

The institution may choose the appropriate ASC Topic 310 measurement on a loan-by-loan basis for an individually impaired loan, except for an impaired collateral-dependent loan. Guidance requires impairment of a collateral dependent loan to be measured using the fair value of collateral method. A loan is considered "collateral dependent" when the repayment of the debt will be provided solely by the underlying collateral, and there are no other available and reliable sources of repayment.

Criticized and Classified loans with at risk balances of $1 million or more and loans below $1 million that the Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Topic 310, Accounting by Creditors for Impairment of a Loan. Carver also performs impairment analysis for all trouble debt restructuring (“TDRs”). If it is determined that it is probable the Bank will be unable to collect all amounts due according with the contractual terms of the loan agreement, the loan is categorized as impaired.

If the loan is determined to be not impaired, it is then placed in the appropriate pool of Criticized & Classified loans to be evaluated for potential losses. Loans determined to be impaired are then evaluated to determine the measure of impairment amount based on one of the three measurement methods noted above. If it is determined that there is an impairment amount, the Bank then determines whether the impairment amount is permanent (that is a confirmed loss), in which case the impairment is written down, or if it is other than permanent, in which case the Bank establishes a specific valuation reserve that is included in the total ALLL. In accordance with guidance, if there is no impairment amount, no reserve is established for the loan.

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 in stockholders’ equity. 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 portfolio are based on published or securities dealers’ market values and are affected by changes in interest rates. The Bank quarterly 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. In April 2009, the FASB issued guidance that changes the amount of another-than-temporary impairment that is recognized in earnings when there are 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 entity will not be required to sell the security prior to the recovery of the non-credit impairment. In those situations, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income. 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. At September 30, 2011, the Bank does not have any other securities that may be classified as having other than temporary impairment in its investment portfolio.

Deferred Income Taxes

Table of Contents

The Company records income taxes in accordance with ASC 740 “Income Taxes,” as amended, using the asset and liability method. Income tax expense (benefit) consists of income taxes currently payable/(receivable) and deferred income taxes. Temporary differences between the basis of assets and liabilities for financial reporting and tax purposes are measured as of the balance sheet date. Deferred tax liabilities or recognizable deferred tax assets are calculated on such differences, using current statutory rates, which result in future taxable or deductible amounts. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Where applicable, deferred tax assets are reduced by a valuation allowance for any portion determined not likely to be realized. This valuation allowance would subsequently be adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

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 expects to be subject to an annual limitation of approximately $0.9 million. The Company has filed an extension for its tax return for the fiscal year ended March 31, 2011 and has not yet determined the potential tax attributes that may be subject to limitation under Section 382. The company has a net deferred tax asset ("DTA") of approximately $25 million. A full valuation allowance for the DTA has been recorded. Due to the Section 382 limitation, some portion of the DTA may not be recoverable in future years.

Stock Repurchase Program

On August 6, 2002, the Holding Company announced a stock repurchase program to repurchase up to 15,442 shares of its outstanding common stock. As of September 30, 2011, 11,744 shares of its common stock have been repurchased in open market transactions at an average price of $235.80 per share. The Holding 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 the six months ended September 30, 2011. As a result of the Company’s participation in the TARP CPP and Community Development Capital Initiative, the U.S. Treasury’s prior approval is required to make further repurchases.

Equity Transactions

On October 25, 2011 Carver's shareholders voted and approved a 1 for 15 reverse stock split. A separate vote of approval was given to convert the Series C preferred stock to 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 2,321,286 shares of Carver common stock and the Series C preferred stock converted into 1,208,039 shares of Carver common stock and 45,118 shares of Series D preferred stock.

Liquidity and Capital Resources

Liquidity is a measure of the Bank's ability to generate adequate cash to meet its financial obligations. The principal cash requirements of a financial institution are to cover potential deposit outflows, fund increases in its loan and investment portfolios and ongoing operating expenses. The Bank's primary sources of funds are deposits, borrowed funds and principal and interest payments on loans, mortgage-backed securities and investment securities. While maturities and scheduled amortization of loans, mortgage-backed securities and investment securities are predictable sources of funds, deposit flows and loan and mortgage-backed securities prepayments are strongly influenced by changes in general interest rates, economic conditions and competition. Carver Federal monitors its liquidity utilizing guidelines that are contained in a policy developed by its management and approved by its Board of Directors. Carver Federal's several liquidity measurements are evaluated on a frequent basis. The Bank was in compliance with this policy as of September 30, 2011.

Management believes Carver Federal’s short-term assets have sufficient liquidity to cover loan demand, potential

Table of Contents

fluctuations in deposit accounts and to meet other anticipated cash requirements. Additionally, Carver Federal has other sources of liquidity including the ability to borrow from the FHLB-NY utilizing unpledged mortgage-backed securities and certain mortgage loans, the sale of available-for-sale securities and the sale of certain mortgage loans. Net borrowings decreased $10.1 million during the six months ended September 30, 2011 primarily as a result of the Bank utilizing excess liquidity to paydown its maturing borrowings. At September 30, 2011, the Bank had $84.1 million in borrowings with a weighted average rate of 3.21% maturing over the next three years. Due to the recent deterioration in asset quality, the FHLB —NY has limited new borrowings to a term of thirty days. At September 30, 2011, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional $88.9 million on a secured basis, utilizing mortgage-related loans and securities as collateral.

The Bank's most liquid assets are cash and short-term investments. The level of these assets is dependent on the Bank's operating, investing and financing activities during any given period. At September 30, 2011 and 2010, assets qualifying for short-term liquidity, including cash and short-term investments, totaled $70 million and $29.6 million, respectively.

The most significant liquidity challenge the Bank faces is variability in its cash flows as a result of mortgage refinance activity. When mortgage interest rates decline, customers' refinance activities tend to accelerate, causing the cash flow from both the mortgage loan portfolio and the mortgage-backed securities portfolio to accelerate. In contrast, when mortgage interest rates increase, refinance activities tend to slow, causing a reduction of liquidity. However, in a rising rate environment, customers generally tend to prefer fixed rate mortgage loan products over variable rate products. Because Carver Federal generally sells its one-to-four family 15-year and 30-year fixed rate loan production into the secondary mortgage market, the origination of such products for sale does not significantly reduce Carver Federal's liquidity.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During the six months ended September 30, 2011 total cash and cash equivalents decreased $25.9 million reflecting cash used in financing activities of $19.6 million, cash provided by operating activities of $10.7 million, and cash provided by investing activities of $34.9 million.

Net cash used in financing activities was $19.6 million, primarily resulting from decreases in deposits of $60.9 million and the maturities of two fixed-rate notes of $15.0 million in the six month period . These decreases were offset by the net inflow of $51.4 million from the capital raise in the first quarter of fiscal 2012 and a new borrowing of $5 million in the second quarter of fiscal 2012. Net cash used provided by operating activities during this period was $10.7 million and was primarily the result of an increase in transfers of loans from held for investment to held for sale offset by proceeds on the held for sale loans that were sold during the six month period. Net cash provided by investing activities was $34.9 million and was primarily the result of loan pay downs and payoffs of $51.8 million offset by $14.7 million of originations on held for investment loans.

The OCC requires that the Bank meet minimum capital requirements. Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system.

The table below presents the capital position of the Bank at September 30, 2011 (dollars in thousands):

	Tier 1 Core Capital Ratio	Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio
GAAP Capital at September 30, 2011	$61,427	$61,427	$61,427
Add:			
General valuation allowances	—	—	6,524
Qualifying subordinated debt	—	—	5,000

Other	234	234	234
Deduct:			
Unrealized gains on securities available-for-sale, net	9	9	9
Goodwill and qualifying intangible assets, net	—	—	—
Regulatory Capital	$61,652	$61,652	$73,176
Minimum Capital requirement	10,164	27,103	40,715
Regulatory Capital Excess	$51,488	$34,549	$32,461
Capital Ratios	9.10 %	12.11 %	14.38 %

Table of Contents

Bank Regulatory Matters

On February 10, 2011, the Bank and the Company consented to enter into Cease and Desist Orders (“Orders”) with the OTS. The OTS is issuing these Orders based upon its findings that the Company is operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it is operating with an excessive level of adversely classified assets and that its earnings are inadequate to augment its capital. On June 29, 2011 the Company raised $55 million of capital. The $55 million resulted in a $51.4 million increase in liquidity net of the effect of various expenses associated with the capital raise. In addition, the Company downstreamed $37 million to the Bank. No assurances can be given that the amount of capital raised is sufficient to absorb the expected losses emanating from the Bank's loan portfolio. Should the losses be greater than expected additional capital may be necessary in the future.

The Orders included a capital directive requiring the Bank to achieve and maintain minimum regulatory capital levels. The Bank's capital level now exceeds regulatory requirements, with a Tier 1 leverage capital ratio of 9.10% versus the required 9% and total risk-based capital ratio of 14.38% versus the required 13%.

In addition, no assurances can be given that the Bank and the Company will continue to comply with all provisions of the Order. Failure to comply with these provisions could result in further regulatory actions to be taken by the regulators.

Under the Orders, the Bank and Company are also prohibited from paying any dividends without prior regulatory approval. On October 18, 2011 we received approval from the Federal Reserve Bank to pay all outstanding dividend payments on the Company's fixed-rate cumulative perpetual preferred stock issued under the Capital Purchase Program of the United States Department of Treasury ("Treasury"). On October 28, 2011 the Treasury exchanged the CDCI Series B preferred stock for 2,321,286 shares of Carver common stock and the Series C preferred stock converted into 1,208,039 shares of Carver common stock and 45,118 shares of Series D preferred stock.

Comparison of Financial Condition at September 30, 2011 and March 31, 2011

Assets

At September 30, 2011, total assets decreased $31.2 million or (4.4)% to $678.0 million compared to $709.2 million at March 31, 2011. Cash and cash equivalents increased $25.9 million, investment securities decreased $1.8 million, total loans receivable decreased $91.4 million, and the allowance for loan losses decreased $1.7 million. These increases were partially offset by loans held for sale which increased by $30.2 million and other assets increased $0.7 million.

Cash and cash equivalents increased $25.9 million, or 58.9% to $70.0 million at September 30, 2011 compared to $44.1 million at March 31, 2011. This increase was primarily driven by the capital raise inflow of $55 million and $35 million in loans repayments and loan sales which is offset by the repayment of institutional deposits totaling $61 million and the net change in borrowings of $9 million.

Investment securities decreased $1.8 million to $69.5 million at September 30, 2011 compared to $71.2 million at March 31, 2011. This change reflected an increase of $4.0 million in available-for-sale securities and a $5.8 million decrease in held-to-maturity securities as the Company reinvested cash flows from held to maturity securities back in to the available for sale portfolio.

Net loans receivable decreased $89.6 million or (16.1)% , to $467.5 million at September 30, 2011 compared to $557.2 million at March 31, 2011. $50.2 million of principal repayments across all loan classifications contributed to the majority of decrease, with the largest impact from Commercial Real Estate, Construction and Business loans. Additionally $34.1 million of loans were transferred from held for investment to held for sale as the Company works down its problem loans. Charge offs for the six month period totaled $6.4 million. The decreases were offset by an $4.8 million medallion loan portfolio purchase and loan originations of $4 million in the six month period.

Liabilities and Stockholders' Equity

Total liabilities decreased $67.3 million, or (9.9)%, to $614.2 million at September 30, 2011 compared to $681.5 million at March 31, 2011. The decrease in total liabilities is primarily due to the decline in total deposits of $60.9 million, the maturity of two fixed-rate notes and the securing of a short term advance from the FHLB-NY totaling $10.1 million.

Deposits decreased $60.9 million or (10.9)%, to $499.8 million at September 30, 2011 compared to $560.7 million at March 31, 2011. Certificates of deposit and NOW balances have declined due to repayments of institutional deposits.

Advances from the FHLB-NY and other borrowed money decreased $10.1 million , or (9.0)%, to $102.5 million at September 30, 2011 compared to $112.6 million at March 31, 2011. The decline was due to two fixed-rate borrowings maturing during the period and one $5 million advance that was added at the end of the second quarter.

Total stockholders' equity increased $36.0 million, or 129.9%, to $63.7 million at September 30, 2011 compared to $27.7 million at March 31, 2011. The key component of this increase was a $55 million capital raise closed on June 29, 2011 as previously reported in the Form 8-K filed with the Securities and Exchange Commission on June 29, 2011. The increase in stockholders' equity from the capital raise was partially offset by expenses of approximately $3.6 million related to the capital raise and the net loss for the six month period of $15.6 million.

Asset/Liability Management

The Company's primary earnings source is net interest income, which is affected by changes in the level of interest rates, the relationship between the rates on interest-earning assets and interest-bearing liabilities, the impact of interest rate fluctuations on asset prepayments, the level and composition of deposits and the credit quality of earning assets. Management's asset/liability objectives are to maintain a strong, stable net interest margin, to utilize its capital effectively without taking undue risks, to maintain adequate liquidity and to manage its exposure to changes in interest rates.

The economic environment is uncertain regarding future interest rate trends. Management regularly monitors the Company's cumulative gap position, which is the difference between the sensitivity to rate changes on the Company's interest-

Table of Contents

earning assets and interest-bearing liabilities. In addition, the Company uses various tools to monitor and manage interest rate risk, such as a model that projects net interest income based on increasing or decreasing interest rates.

Off-Balance Sheet Arrangements and Contractual Obligations

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers and in connection with its overall investment strategy. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are not recorded in the consolidated financial statements. Such instruments primarily include lending obligations, including commitments to originate mortgage and consumer loans and to fund unused lines of credit. Lending commitments include commitments to originate mortgage and consumer loans and commitments to fund unused lines of credit. The Bank has contractual obligations related to operating leases as well as a contingent liability related to a standby letter of credit.The Bank also has a commitment to fund an investment related to a private equity partnership. See the table below for the Bank’s outstanding lending commitments and contractual obligations at September 30, 2011.

The following table reflects the outstanding commitments as of September 30, 2011 (in thousands):

Commitments to fund construction mortgage loans	$3,856
Commitments to fund commercial and consumer loans	235
Lines of credit	5,123
Letters of credit	244
Commitment to fund Private Equity investment	500
Total	$9,958

Table of Contents

Comparison of Operating Results for the Three Months Ended September 30, 2011 and 2010

Overview

The Company reported a net loss of $9.5 million for the second quarter of fiscal 2012 compared to net loss of $23.4 million for the second quarter of fiscal 2011. Net loss per share for the quarter was $58.67 compared to net loss per share of $141.72 for the second quarter of fiscal 2011. The net loss is primarily the result of $7.0 million in provision for loan losses which is $0.8 million less than the provision set aside in the prior year quarter.

The following table reflects selected operating ratios for the three months ended September 30, 2011 and 2010:

CARVER BANCORP, INC. AND SUBSIDIARIES
SELECTED KEY RATIOS
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
Selected Financial Data:	2011	2010	2011	2010
Return on average assets (1)	(5.60)%	(1.22)%	(4.54)%	(6.39)%
Return on average equity (2)	(51.69)%	(13.91)%	(60.73)%	(79.12)%
Net interest margin (3)	3.60%	3.89%	3.39%	3.88%
Interest rate spread (4)	3.31%	3.78%	3.10%	3.78%
Efficiency ratio (5)	117.25%	83.64%	115.88%	83.77%
Operating expenses to average assets (6)	4.52%	3.67%	4.35%	3.73%
Average equity to average assets (7)	10.84%	8.80%	7.48%	8.07%
Average interest-earning assets to average interest-bearing liabilities	1.27x	1.08x	1.26x	1.07x

(1) Net income, annualized, divided by average total assets.
(2) Net income, annualized, divided by average total equity.
(3) Net interest income, annualized, divided by average interest-earning assets.
(4) Combined weighted average interest rate earned less combined weighted average interest rate cost.
(5) Operating expenses divided by sum of net interest income plus non-interest income.
(6) Non-interest expenses less loss on real estate owned, annualized, divided by average total assets.
(7) Total average equity divided by total average assets for the period.

Analysis of Net Interest Income

The Company’s profitability is primarily dependent upon net interest income and further affected by provisions for loan losses, non-interest income, non-interest expense and income taxes. Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned and paid. The Company’s net interest income is significantly impacted by changes in interest rate and market yield curves.

Net interest income decreased $1.2 million to $5.7 million compared to $6.9 million for the prior year period. The variance was predominantly in interest income on loans which declined $1.7 million partially offset by a decrease in interest expense on deposits of $0.6 million.

Net interest income decreased $3.0 million to $11.0 million compared to $13.9 million for the prior year period. The variance was predominantly in interest income on loans which declined $4.0 million partially offset by a decrease in interest expense on deposits of $1.1 million.

43

Table of Contents

The following table sets forth, for the periods indicated, certain information about average balances of the Company's interest-earning assets and interest-bearing liabilities and their related average yields and the average costs for the three and six months ended September 30, 2011 and 2010. Average yields are derived by dividing annualized income or expense by the average balances of assets or liabilities, respectively, for the periods shown. Average balances are derived from daily or month-end balances as available. Management does not believe that the use of average monthly balances instead of average daily balances represents a material difference in information presented. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yield and cost include fees, which are considered adjustments to yields.

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED AVERAGE BALANCES
(In thousands)
(Unaudited)

	For the Three Months Ended September 30,							
	2011				2010			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Interest Earning Assets:								
Loans (1)	$548,886	$6,958	5.07	%	$641,156	$8,686	5.42	%
Mortgaged-backed securities	48,532	342	2.82	%	48,872	525	4.30	%
Investment securities	23,436	79	1.35	%	12,966	47	1.45	%
Restricted Cash Deposit	6,215	0.4661	0.03	%	—			
Equity securities (2)	2,705	57	8.36	%	3,469	80	9.15	%
Other investments and federal funds sold	649	5	3.06	%	3,980	5	0.50	%
Total interest-earning assets	630,423	7,441	4.72	%	710,443	9,343	5.26	%
Non-interest-earning assets	44,432				94,681			
Total assets	$674,855				$805,124			
Interest Bearing Liabilities:								
Deposits:								
Now demand	$25,088	10	0.16	%	$61,917	32	0.21	%
Savings and clubs	105,011	69	0.26	%	109,254	74	0.27	%
Money market	77,264	188	0.97	%	69,967	192	1.10	%
Certificates of deposit	188,642	663	1.39	%	312,460	1,197	1.53	%
Mortgagors deposits	2,008	7	1.38	%	2,257	9	1.60	%
Total deposits	398,013	937	0.93	%	555,855	1,504	1.08	%
Borrowed money	98,364	827	3.34	%	114,110	983	3.45	%
Total interest-bearing liabilities	496,377	1,764	1.41	%	669,965	2,487	1.48	%
Non-interest-bearing liabilities:								
Demand	96,605				68,257			
Other liabilities	8,751				7,695			
Total liabilities	601,733				745,917			
Minority Interest	—				—			
Stockholders' equity	73,122				59,207			
Total liabilities & stockholders' equity	$674,855				$805,124			
Net interest income		$5,677				$6,856		
Average interest rate spread			3.31	%			3.78	%
Net interest margin			3.60	%			3.86	%

(1) Includes non-accrual loans
(2) Includes FHLB-NY stock

Table of Contents

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED AVERAGE BALANCES
(In thousands)
(Unaudited)

	For the Six Months Ended September 30,							
	2011				2010			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Interest Earning Assets:								
Loans (1)	$564,430	$13,660	4.84	%	$649,255	$17,635	5.43	%
Mortgaged-backed securities	50,835	739	2.91	%	52,464	1,112	4.24	%
Investment securities	20,833	138	1.32	%	9,915	81	1.63	%
Restricted Cash Deposit	6,215	1	0.03	%	—			
Equity securities (2)	3,020	128	8.45	%	3,737	125	6.67	%
Other investments and federal funds sold	770	9	2.33	%	2,681	10	0.74	%
Total interest-earning assets	646,103	14,675	4.54	%	718,052	18,963	5.28	%
Non-interest-earning assets	39,630				91,628			
Total assets	$685,733				$809,680			
Interest Bearing Liabilities:								
Deposits:								
Now demand	$26,079	$21	0.16	%	$52,061	$63	0.24	%
Savings and clubs	106,194	140	0.26	%	112,679	147	0.26	%
Money market	72,482	357	0.98	%	70,388	415	1.18	%
Certificates of deposit	201,506	1,406	1.39	%	314,705	2,374	1.50	%
Mortgagors deposits	2,433	19	1.56	%	2,712	22	1.62	%
Total deposits	408,694	1,943	0.95	%	552,545	3,021	1.09	%
Borrowed money	105,400	1,777	3.36	%	119,298	2,024	3.38	%
Total interest-bearing liabilities	514,094	3,720	1.44	%	671,843	5,045	1.50	%
Non-interest-bearing liabilities:								
Demand	112,362				64,311			
Other liabilities	7,971				8,171			
Total liabilities	634,427				744,325			
Minority Interest	—				—			
Stockholders' equity	51,306				65,355			
Total liabilities & stockholders' equity	$685,733				$809,680			
Net interest income		$10,955				$13,918		
Average interest rate spread			3.10	%			3.78	%
Net interest margin			3.39	%			3.88	%

(1) Includes non-accrual loans

(2) Includes FHLB-NY stock
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Interest Income

Table of Contents

Interest income decreased $1.9 million to $7.4 million for the quarter ended September 30, 2011 compared to $9.3 million for the prior year period. The change in interest income was primarily the result of a decrease in interest income on loans of $1.7 million and a decline in the interest income on mortgage-backed securities of $0.2 million. Interest income decreased $1.9 million in the first quarter, compared to the prior year quarter, due to the decrease in yields on interest bearing asset and the decrease in the average balance of interest earning assets. $1.2 million was due to the decrease in the average balances and $0.7 million of the decrease in interest income was due to the lower yields. The average yield on investment securities decreased 148 basis points to 2.82% from 4.30% as new securities purchased to replace securities called and pay downs in the portfolio carried lower rates. The average yield on loans decreased 35 basis points to 5.07% from 5.42% . The decline in average loans was the direct result of management's continuing efforts to reduce the level of non-performing real estate loans by transferring them from the held for investment portfolio to the held for sale portfolio and ultimately disposing of the asset . It is anticipated that the reduction in real estate loans will continue over the next several quarters until troubled debt resolutions are complete and the Company's concentration in real estate assets meets regulatory guidelines.
Interest income decreased $4.3 million in the six month period, compared to the prior year period, due to the drop in yields on interest bearing assets and the decrease in the average balance of interest earning assets. $2.3 million of the decrease in interest income was due to lower average balances and $2.0 million was due to lower yields. The average yield on mortgaged-backed securities fell 133 basis points to 2.91% from 4.24%. The average yield on loans fell 59 basis points to 4.84% from 5.43% primarily due to the growth in non-accrual loans in the first quarter. The current low interest rate environment combined with first quarter's elevated levels of non-performing assets and a reduction in interest earning assets continues to constrain net interest income.

Interest Expense
Interest expense decreased by $0.7 million, or 29.1%, to $1.8 million for the first quarter, compared to $2.5 million for the prior year quarter. The decrease was primarily due to a decline in deposit interest expense of $0.6 million. The decrease in interest expense reflects a 7 basis point decrease in the average cost of interest-bearing liabilities to 1.41% for the first quarter, compared to an average cost of 1.48% for the prior year period. A decrease of $0.5 million was due to the continued downward re-pricing of certificates of deposits and and money market savings
Interest expense decreased by $1.3 million, or 26.3%, to $3.7 million for the six month period, compared to $5.0 million for the prior year period. The decrease was primarily due to a decline in deposit interest expense of $1.1 million. The decrease in interest expense reflects a 6 basis point decrease in the average cost of interest-bearing liabilities to 1.44% for the second quarter, compared to an average cost of 1.50% for the prior year period. A decrease of $0.9 million was due to the continued downward re-pricing of certificates of deposits and deleveraging of the Certificate of Deposit Account Registry Service "CDARS" portfolio.

Provision for Loan Losses and Asset Quality
The Bank maintains an ALLL that management believes is adequate to absorb inherent and probable losses in its loan portfolio. The adequacy of the ALLL is determined by management’s continuous review of the Bank’s loan portfolio, which includes identification and review of individual factors that may affect a borrower’s ability to repay. Management reviews overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral and current charge-offs. A review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio are all taken into consideration. The ALLL reflects management’s evaluation of the loans presenting identified loss potential as well as the risk inherent in various components of the portfolio. As such, an increase in the size of the portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans.

The Bank's provision for loan loss methodology is consistent with the Interagency Policy Statement on the Allowance for Loan and Lease Losses (the "Interagency Policy Statement") released by the Federal Financial Regulatory Agencies on December 13, 2006. For additional information regarding the Bank's ALLL policy, refer to Note 2 of Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies" included in the Holding Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011.
The following table summarizes the activity in the ALLL for the six month period ended September 30, 2011 and fiscal year-end March 31, 2011 (dollars in thousands):

	Six Months Ended September 30, 2011	Fiscal Year Ended March 31, 2011
Beginning Balance	$23,147	$12,000
Less: Charge-offs	(13,998)	(16,019)
Add: Recoveries	104	52
Provision for Loan Losses	12,176	27,114
Ending Balance	$21,429	$23,147
Ratios:		
Net charge-offs to average loans outstanding	2.03 %	2.54 %
Allowance to total loans	4.38 %	3.99 %
Allowance to non-performing loans	27.15 %	29.90 %

The Bank recorded a $12.2 million provision for loan losses in the six months ended September 30, 2011 compared to $14.1 million for the prior year period, net charge-offs were $7.0 million were taken on those loans that were reclassified to held for sale at fair market value compared to net charge-offs of $6.0 million for the prior year period. At September 30, 2011, non-performing loans totaled $78.9 million, or 17.49% of total assets compared to $77.4 million or 12.29% of total assets at March 31, 2011. The ALLL was $21.4 million at September 30, 2011, which represents a ratio of the ALLL to non-performing loans of 27.15% compared to 29.90% at March 31, 2011. The ratio of the ALLL to total loans was 4.38% at September 30, 2011 up from 3.99% at March 31, 2011.

Non-performing Assets

Non-performing assets consist of non-accrual 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 takes 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 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 non-accrual 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 September 30, 2011, loans classified as a TDR totaled $15.6 million.

At September 30, 2011, non-performing assets totaled $118.6 million, or 17.49% of total assets compared to $87.2 million, or 12.29% of total assets at March 31, 2011. The slight increase in non-performing assets impacted all loan types except consumer loans, with the largest increase in multifamily and commercial loans. Uncertainty still remains with respect to the timing of a sustained economic recovery which may affect the ability of borrowers to stay current with their loans.

47

Table of Contents

The following table sets forth information with respect to the Bank's non-performing assets for the past five quarter end periods (dollars in thousands):

CARVER BANCORP, INC. AND SUBSIDIARIES
Non Performing Asset Table
(In thousands)

	September 2011	June 2011	March 2011	December 2010	September 2010
Loans accounted for on a non-accrual basis (1):					
Gross loans receivable:					
One- to four-family	$14,335	$16,421	$15,993	$16,290	$14,583
Multifamily	9,106	9,307	6,786	14,076	14,103
Commercial real estate	16,088	25,893	10,078	12,231	11,189
Construction	31,526	54,425	37,218	40,060	36,145
Business	7,831	9,159	7,289	7,471	3,699
Consumer	36	22	42	20	37
Total non-accrual loans	78,922	115,227	77,406	90,148	79,756
Other non-performing assets (2):					
Real estate owned	275	237	564	—	19
Loans held for sale	39,369	18,068	9,205	1,700	550
Total other non-performing assets	39,644	18,305	9,769	1,700	569
Total non-performing assets (3)	$118,566	$133,532	$87,175	$91,848	$80,325
Accruing loans contractually past due > 90 days (4)	$—	$—	$—	$—	$1,765
Non-performing loans to total loans	16.14 %	21.18 %	13.34 %	14.97 %	12.88 %
Non-performing assets to total assets	17.49 %	19.68 %	12.29 %	12.35 %	10.64 %

(1) Non-accrual status denotes any loan where the delinquency exceeds 90 days past due and in the opinion of management the collection of additional interest and/or principal is doubtful. Payments received on a non-accrual 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. During the quarter ended September 30, 2011, 17 non-performing loans with a net book value of $32.3 million and a fair market value of $26.7 million were moved to Held for Sale. During the quarter ended June 30, 2011, 2 non-performing loans with a net book value of $2.6 million and a fair market value of $1.5 million were moved to Held for Sale.

(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 non-accrual and are included in the non-accrual category in the table above. 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.

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

Subprime Loans

In the past, the Bank originated a limited amount of subprime loans; however, such lending has been discontinued. At September 30, 2011, the Bank had $7.6 million in subprime loans, or 1.6% of its total loan portfolio of which

$4.9 million are non-performing loans.

Non-Interest Income

Non-interest income decreased $1.4 million, or (63.1)%, to $0.8 million for the second quarter, compared to $2.2 million for the prior year quarter primarily due to non-recurring fees that were earned on New Market Tax Credit (NMTC) transactions in the prior period and a gain on sale of securities.

Non-interest income decreased $2.2 million, or 53.27%, to $1.9 million for the six month period, compared to $4.1

Table of Contents

million for the prior year period primarily due to non-recurring fees that were earned on New Market Tax Credit (NMTC) transactions and gain on sale of securities in the prior period.

Non-Interest Expense

Non-interest expense was flat compared to the prior year quarter. The higher employee compensation and benefits were offset by lower consulting fees.

Non-interest expense decreased $0.2 million, or 1.2%, to $14.9 million compared to $15.1 million for the prior year period primarily due to lower consulting fees incurred in the current period.

Income Tax Expense

The income tax expense was $0.2 million for the quarter ended September 30, 2011 compared to an income tax expense of $17.0 million for the prior year period. The decrease in expense is primarily due to the establishment of a valuation allowance against the deferred tax asset that was taken in the prior period.

The income tax expense was $0.1 million for the six month period compared to an expense of $14.7 million for the prior year period. The benefit for the six month period ending September 30, 2011 is primarily related to state and local income tax benefit taken in the quarter.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Quantitative and qualitative disclosure about market risk is presented at March 31, 2011 in Item 7A of the Company's 2011 Form 10-K and is incorporated herein by reference. The Company believes that there has been no material change in the Company's market risk at September 30, 2011 compared to March 31, 2011.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. As of September 30, 2011, the Company's management, including the Company's Chief Executive Officer (Principal Executive Officer) and Controller (Principal Accounting Officer), has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Controller concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Controller, as appropriate, to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's system of internal control is designed under the supervision of management, including the Company's

Table of Contents

Chief Executive Officer and Principal Accounting Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. Generally Accepted Accounting Principles ("GAAP").

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with the authorization of management and the Boards of Directors of the Parent Company and the subsidiary banks; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate.

As of September 30, 2011, management assessed the effectiveness of the Company's internal control over financial reporting based upon the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon its assessment, management believes that the Company's internal control over financial reporting as of September 30, 2011 is effective using these criteria.

(c) Changes in Internal Control over Financial Reporting
There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company and the Bank are parties to various legal proceedings incident to their business. Certain claims, suits, complaints and investigations (collectively "proceeding") involving the Company and the Bank, 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 in these proceedings, that it has meritorious defenses to each proceeding and the Company and the Bank is taking appropriate measures to defend its interests. Carver Federal is a defendant in one lawsuit brought by a purported fifty percent loan participant on a multifamily loan, alleging grossly negligence and breach of contract in the manner in which Carver Federal serviced the loan. Plaintiff asserts damages in excess of $500,000. Carver Federal brought a counter claim against the plaintiff and a third party complaint against the original loan participant seeking recovery of funds Carver Federal advanced on their behalf, such as real estate taxes, in connection with servicing of the multifamily loan. In another matter, in September 2010, the New York State Department of Labor ("DOL") Unemployment Insurance Division, based on claims for unemployment benefits made by two individuals formerly engaged as independent contractors by Carver Federal, determined that these two individuals were employees and not independent contractors for Unemployment Insurance purposes. Carver Federal requested a hearing before the Unemployment Insurance Appeal Board ("Appeal Board"). On July 18, 2011, an Appeal Board's Administrative Judge sustained the DOL's determination. Carver Federal continues to believe it has a meritorious case and has recently filed an appeal with the Appeals Board. In accordance with ASC Topic 450 Carver has accrued $415,000 for these lawsuits.

Item 1A. Risk Factors

The following risk factors represent material updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011 ("Form 10-K"). The risk factors below should be read in conjunction with the risk factors and other information disclosed in our Form 10-K. The risks described below and in our Form 10-K are not the only risks facing the Company. Additional risks not presently known to the Company, or that we currently deem immaterial, may also adversely affect the Company's business, financial condition or results of operations.

An investment in our securities is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below, in addition to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2011.

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 to generate taxable income 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, "New Markets Tax Credit Award."

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.

Table of Contents

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 expects to be subject to an annual limitation of approximately $0.9 million. The Company has filed an extension for its tax return for the fiscal year ended March 31, 2011 and has not yet determined the potential tax attributes that may be subject to limitation under Section 382. The company has a net deferred tax asset ("DTA") of approximately $25 million. A full valuation allowance for the DTA has been recorded. Due to the Section 382 limitation, some portion of the DTA may not be recoverable in future years.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The Dodd-Frank Act implements significant changes in the financial regulatory landscape and will impact all financial institutions. This impact may materially affect our business activities, financial position and profitability by, among other things. Increasing our regulatory compliance burden and associated costs, placing restrictions on certain products and services, and limiting our future capital raising strategies.

Among the Dodd-Frank Act’s significant regulatory changes, it creates a new financial consumer protection agency, known as the Bureau of Consumer Financial Protection (the “Bureau”), that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The Bureau has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of federal consumer protection laws. The Dodd-Frank Act also eliminates our primary regulator, the OTS and designates the Comptroller of the Currency to become our primary bank regulator. Moreover, the Dodd-Frank Act permits States to adopt stricter consumer protection laws and authorizes State attorney generals’ to enforce consumer protection rules issued by the Bureau. The Dodd-Frank Act also may affect the preemption of State laws as they affect subsidiaries and agents of federally chartered banks, changes the scope of federal deposit insurance coverage, and increases the FDIC assessment payable by the Bank. We expect that the Bureau and these other changes will significantly increase our regulatory compliance burden and costs and may restrict the financial products and services we offer to our customers. The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier I capital. These restrictions will limit our future capital strategies. Under the Dodd-Frank Act, our outstanding trust preferred securities will continue to count as Tier I capital but we will be unable to issue replacement or additional trust preferred securities that would count as Tier I capital. Because many of the Dodd-Frank Act’s provisions require subsequent regulatory rulemaking, we are uncertain as to the impact that some of the provisions will have on the Company and cannot provide assurance that the Dodd-Frank Act will not adversely affect our financial condition and results of operations for other reasons.

Any future FDIC special assessments or increases in insurance premiums will adversely impact the Company’s earnings.

The Standard & Poor's downgrade in the U.S. government's sovereign credit rating, and in the credit ratings of instruments issued, insured or guaranteed by certain related institutions, agencies and instrumentalities, could result in risks to the Company and general economic conditions that we are not able to predict.

On August 5, 2011, Standard & Poor's downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard & Poor's downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. Instruments of this nature are key assets on the balance sheets of financial institutions, including the Bank. These downgrades could adversely affect the market value of such instruments, and could adversely impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. We cannot predict if, when or how these changes to the credit ratings will affect economic conditions.

These ratings downgrades could result in a significant adverse impact to the Company, and could exacerbate the other risks to which the Company is subject, including those described under Risk Factors in the Company's 2011 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

Table of Contents

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 approval was given to convert the Series C preferred stock to Series D preferred stock and common stock and the Treasury 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.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Reserved

Item 5. Other Information
Not applicable.

Item 6. Exhibits
The following exhibits are submitted with this report:

Table of Contents

Exhibit 11.	Computation of Loss Per Share.
Exhibit 31.1	Certification of Chief Executive Officer.
Exhibit 31.2	Certification of Chief Accounting Officer.
Exhibit 32.1	Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
Exhibit 32.2	Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
Exhibits 101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements Changes in Stockholders Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to the Consolidated Financial Statements tagged as blocks of texts and in detail [1] [1] As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CARVER BANCORP, INC.
Date: November 14, 2011	/s/ Deborah C. Wright Deborah C. Wright Chairman and Chief Executive Officer (Principal Executive Officer)
Date: November 14, 2011	/s/ David L. Toner David L. Toner Senior Vice President & Controller (Principal Accounting Officer)