

CARVER BANCORP INC

Form 10-Q

February 17, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2016

OR

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

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

Commission File Number: 001-13007

CARVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

13-3904174

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

75 West 125th Street, New York, New York

10027

(Address of Principal Executive Offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes  No

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

Class

Outstanding at February 16, 2017

Common Stock, par value \$0.01 3,696,087

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION (UNAUDITED)</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Financial Condition as of December 31, 2016 and March 31, 2016</u>	<u>1</u>
<u>Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2016 and 2015</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended December 31, 2016 and 2015</u>	<u>3</u>
<u>Consolidated Statement of Changes in Equity for the Nine Months Ended December 31, 2016</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2016 and 2015</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>45</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 1A. Risk Factors</u>	<u>46</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>46</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>46</u>
<u>Item 5. Other Information</u>	<u>46</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>SIGNATURES</u>	<u>48</u>
Exhibit 11	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
Exhibit 101	



## PART I. FINANCIAL INFORMATION

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

	December 31, 2016	March 31, 2016
\$ in thousands except per share data		
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$61,209	\$63,156
Money market investments	255	504
Total cash and cash equivalents	61,464	63,660
Restricted cash	269	225
Investment securities:		
Available-for-sale, at fair value	60,024	56,180
Held-to-maturity, at amortized cost (fair value of \$13,907 and \$15,653 at December 31, 2016 and March 31, 2016, respectively)	13,913	15,311
Total investment securities	73,937	71,491
Loans held-for-sale ("HFS")	16,103	2,495
Loans receivable:		
Real estate mortgage loans	466,550	517,785
Commercial business loans	66,439	71,192
Consumer loans	302	42
Loans, gross	533,291	589,019
Allowance for loan losses	(4,620 )	(5,232 )
Total loans receivable, net	528,671	583,787
Premises and equipment, net	5,468	5,983
Federal Home Loan Bank of New York ("FHLB-NY") stock, at cost	2,576	2,883
Accrued interest receivable	3,125	3,647
Other assets	7,262	7,557
Total assets	\$698,875	\$741,728
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Savings	\$97,668	\$95,230
Non-interest bearing checking	58,710	56,634
Interest-bearing checking	35,552	33,106
Money market	143,783	163,380
Certificates of deposit	240,957	255,854
Escrow	1,488	2,537
Total deposits	578,158	606,741
Advances from the FHLB-NY and other borrowed money	58,403	68,403
Other liabilities	10,893	12,369
Total liabilities	647,454	687,513
<b>EQUITY</b>		

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Preferred stock, (par value \$0.01 per share: 45,118 Series D shares, with a liquidation preference of \$1,000 per share, issued and outstanding)	45,118	45,118
Common stock (par value \$0.01 per share: 10,000,000 shares authorized; 3,698,031 shares issued; 3,696,087 shares outstanding)	61	61
Additional paid-in capital	55,470	55,470
Accumulated deficit	(46,710 )	(45,710 )
Treasury stock, at cost (1,944 shares)	(417 )	(417 )
Accumulated other comprehensive loss	(2,101 )	(307 )
Total equity	51,421	54,215
Total liabilities and equity	\$698,875	\$741,728
See accompanying notes to consolidated financial statements		

1

---

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015 Restated (1)	2016	2015 Restated (1)
\$ in thousands, except per share data				
Interest income:				
Loans	\$5,642	\$ 6,467	\$17,963	\$18,283
Mortgage-backed securities	223	191	539	579
Investment securities	174	317	597	999
Money market investments	65	34	195	86
Total interest income	6,104	7,009	19,294	19,947
Interest expense:				
Deposits	966	841	2,830	2,398
Advances and other borrowed money	316	330	1,094	924
Total interest expense	1,282	1,171	3,924	3,322
Net interest income	4,822	5,838	15,370	16,625
(Recovery of) provision for loan losses	(128 )	728	(492 )	1,405
Net interest income after (recovery of) provision for loan losses	4,950	5,110	15,862	15,220
Non-interest income:				
Depository fees and charges	847	820	2,452	2,297
Loan fees and service charges	116	114	365	456
Gain on sale of securities	—	—	58	1
Gain on sale of loans, net	—	305	4	499
(Loss) gain on sale of real estate owned, net of market value adjustment	(144 )	146	(134 )	164
Gain on sale of building, net	18	1,203	52	1,203
Lower of cost or market adjustment on loans held-for-sale	(26 )	1	(26 )	1
Other	160	152	641	444
Total non-interest income	971	2,741	3,412	5,065
Non-interest expense:				
Employee compensation and benefits	3,138	2,921	9,111	8,431
Net occupancy expense	812	1,199	2,353	3,320
Equipment, net	173	150	561	476
Data processing	379	322	1,078	768
Consulting fees	218	245	486	535
Federal deposit insurance premiums	186	135	515	390
Other	2,171	2,242	6,133	5,347
Total non-interest expense	7,077	7,214	20,237	19,267
(Loss) income before income taxes	(1,156 )	637	(963 )	1,018
Income tax expense	—	67	37	159
Net (loss) income	\$(1,156)	\$ 570	\$(1,000)	\$ 859

Edgar Filing: CARVER BANCORP INC - Form 10-Q

(Loss) earnings per common share:

Basic	\$ (0.31 )	\$ 0.06	\$ (0.27 )	\$ 0.09
Diluted	(0.31 )	0.06	(0.27 )	0.09

(1) December 31, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

See accompanying notes to consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015 Restated (1)	2016	2015 Restated (1)
\$ in thousands				
Net (loss) income	\$(1,156)	\$ 570	\$(1,000)	\$ 859
Other comprehensive (loss) income				
Change in unrealized loss of securities available-for-sale	(1,836 )	(592 )	(1,736 )	(364 )
Less: Reclassification adjustment for sales of available-for-sale securities	—	—	58	1
Total other comprehensive loss	(1,836 )	(592 )	(1,794 )	(365 )
Total comprehensive (loss) income	\$(2,992)	\$ (22 )	\$(2,794)	\$ 494

<sup>(1)</sup> December 31, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

See accompanying notes to consolidated financial statements



CARVER BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended December 31, 2016

(Unaudited)

\$ in thousands	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance — March 31, 2016	\$45,118	\$ 61	\$ 55,470	\$ (45,710 )	\$ (417 )	\$ (307 )	\$54,215
Net loss	—	—	—	(1,000 )	—	—	(1,000 )
Other comprehensive loss, net of taxes	—	—	—	—	—	(1,794 )	(1,794 )
Balance — December 31, 2016	\$45,118	\$ 61	\$ 55,470	\$ (46,710 )	\$ (417 )	\$ (2,101 )	\$51,421

See accompanying notes to consolidated financial statements

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

	Nine Months Ended December 31,	
\$ in thousands	2016	2015 Restated (1)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$(1,000 )	\$859
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
(Recovery of) provision for loan losses	(492 )	1,405
Stock based compensation expense	—	2
Depreciation and amortization expense	646	848
Loss (gain) on sale of real estate owned, net of market value adjustment	134	(164 )
Gain on sale of securities, net	(58 )	(1 )
Gain on sale of loans, net	(4 )	(499 )
Gain on sale of building	(52 )	(1,203 )
Amortization and accretion of loan premiums and discounts and deferred charges	156	143
Amortization and accretion of premiums and discounts — securities	259	247
Market adjustment on held-for-sale loans	26	(1 )
Decrease (increase) in accrued interest receivable	522	(896 )
Decrease (increase) in other assets	960	(4,784 )
(Decrease) increase in other liabilities	(1,476 )	3,244
Net cash used in operating activities	(379 )	(800 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments: Available-for-sale	(30,761 )	—
Purchases of securities: Held-to-maturity	—	(5,118 )
Proceeds sales of investments: Available-for-sale	7,259	4,951
Proceeds from principal payments, maturities and calls of investments: Available-for-sale	17,569	27,524
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	1,340	1,367
Originations of loans held-for-investment, net of repayments	44,843	(32,210 )
Loans purchased from third parties	(13,896 )	(105,445)
Proceeds from sale of loans held-for-sale	4,645	730
Proceeds on sale of loans	5,401	17,620
(Increase) decrease in restricted cash	(44 )	6,144
Redemption (purchase) of FHLB-NY stock	307	(264 )
Purchase of premises and equipment	(66 )	(363 )
Proceeds from sale of building	—	2,113
Proceeds from sale of real estate owned	169	3,983
Net cash provided by (used in) investing activities	36,766	(78,968 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net (decrease) increase in deposits	(28,583 )	69,852
Net (decrease) increase in FHLB-NY advances and other borrowings	(10,000 )	5,000
Net cash (used in) provided by financing activities	(38,583 )	74,852
Net decrease in cash and cash equivalents	(2,196 )	(4,916 )
Cash and cash equivalents at beginning of period	63,660	50,992

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Cash and cash equivalents at end of period	\$61,464	\$46,076
Supplemental cash flow information:		
Noncash financing and investing activities		
Transfers to held-for-sale loans	\$18,518	\$730
Transfers to real estate owned	\$462	\$438
Cash paid for:		
Interest	\$4,692	\$2,609
Income taxes	\$57	\$143

<sup>(1)</sup> December 31, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Nature of operations

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

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

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.

In September 2003, the Company formed Carver Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures of the Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidations,” Carver Statutory Trust I is unconsolidated for financial reporting purposes. On September 17, 2003, Carver Statutory Trust I issued 13,000 shares, liquidation amount \$1,000 per share, of floating rate capital securities. Gross proceeds from the sale of these trust preferred debt securities of \$13 million, and proceeds from the sale of the trust's common securities of \$0.4 million, were used to purchase approximately \$13.4 million aggregate principal amount of the Company's floating rate junior subordinated debt securities due 2033. The trust preferred debt securities are redeemable at par quarterly at the option of the Company beginning on or after September 17, 2008, and have a mandatory redemption date of September 17, 2033. Cash distributions on the trust preferred debt securities are cumulative and payable at a floating rate per annum resetting quarterly with a margin of 3.05% over the three-month LIBOR. Interest on the debentures has been deferred, per the terms of the agreement, as the Company is prohibited from making prior payments without prior approval. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through September 2016. Such payments were made in September 2016.

Carver relies primarily on dividends from Carver Federal to pay cash dividends to its stockholders, to engage in share repurchase programs and to pay principal and interest on its trust preferred debt obligation. The OCC regulates all capital distributions, including dividend payments, by Carver Federal to Carver, and the FRB regulates dividends paid by Carver. As the subsidiary of a savings and loan association holding company, Carver Federal must file a notice or an application (depending on the proposed dividend amount) with the OCC (and a notice with the FRB) prior to the declaration of each capital distribution. The OCC will disallow any proposed dividend, for among other reasons, that would result in Carver Federal's failure to meet the OCC minimum capital requirements. In accordance with the Agreement, Carver Federal is currently prohibited from paying any dividends without prior OCC approval, and, as such, has suspended Carver's regular quarterly cash dividend on its common stock. There are no assurances that dividend payments to Carver will resume.

## Regulation

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

On May 24, 2016, the Bank entered into a Formal Agreement with the OCC to undertake certain compliance-related and other actions as further described in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on May 27, 2016. As a result of the Formal Agreement ("the Agreement"), the Bank must obtain the approval of the OCC prior to effecting any change in its directors or senior executive officers. The Bank may not declare or pay dividends

or make any other capital distributions, including to the Company, without first filing an application with the OCC and receiving the prior approval of the OCC. Furthermore, the Bank must seek the OCC's written approval and the FDIC's written concurrence before entering into any "golden parachute payments" as that term is defined under 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359.

On June 29, 2011, the Company raised \$55 million of capital by issuing 55,000 shares of mandatorily convertible non-voting participating preferred stock, Series C (the "Series C preferred stock"). The issuance resulted in a \$51.4 million increase in equity after considering the effect of various expenses associated with the capital raise. The capital raise enabled the Company to make a capital injection of \$37 million in the Bank on June 30, 2011. In December 2011, another \$7 million capital injection was made in the Bank. The remainder of the net capital raised is retained by the Company for future strategic purposes or to downstream into the Bank, if necessary. No assurances can be given that the amount of capital raised is sufficient to absorb the expected losses in the Bank's loan portfolio. Should the losses be greater than expected, additional capital may be necessary in the future.

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

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

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

#### Restatement

On July 12, 2016, the Finance and Audit Committee of the Board of Directors of Carver Bancorp, Inc., after consultation with KPMG LLP, our independent registered public accounting firm at the time, determined that our consolidated financial statements for the fiscal year ended March 31, 2015, and each of the quarters of 2015 and 2016 should no longer be relied upon.

The Company's audited results as of and for the year ended March 31, 2015, as well as the unaudited condensed consolidated financial information for the quarterly periods in 2016 and 2015 were restated in the Annual Report on Form 10-K for the year ended March 31, 2016 (the "Restatement"). The Restatement corrected a material error related to the accrual of data processing and other expenses related to invoices paid to the Bank's core system service provider. In fiscal 2016, Carver Bancorp recognized expenses on invoices paid to its core system provider, and during the course of preparation of the fiscal 2016 consolidated financial statements and audit, management determined that \$613 thousand of expenses should have been recognized in fiscal 2015. The impact of the restatement for the three months ended December 31, 2015 was a decrease in data processing expense of \$133 thousand. For the nine months ended December 31, 2015, the impact of the restatement was decreases in the provision for loan losses of \$83 thousand, data processing expense of \$267 thousand, consulting fees of \$23 thousand and other non-interest expense of \$36 thousand. Management also identified an accounting error related to the reporting of earnings per share (EPS). Under the two class method of computing EPS, the Company has two classes of stock to which undistributed earnings are allocated. Previously, the impact of the undistributed earnings allocated to the shares of the Company's Series D convertible preferred stock had not been considered in this computation. Basic and Diluted EPS amounts were updated for all periods in a net income position to include 45,118 shares of Series D Preferred Stock which, under certain circumstances, could convert to 5,518,006 shares of common stock. The impact of the restatement for the three months ended December 31, 2015 was a decrease of \$0.06 in basic and diluted EPS from \$0.12 to \$0.06. For the nine

months ended December 31, 2015, the impact of the restatement was a decrease of \$0.03 in basic and diluted EPS from \$0.12 to \$0.09. In addition to these errors, adjustments were made related to other individually immaterial errors including certain corrections that had been previously identified but not recorded because they were not material to our consolidated financial statements. These corrections included adjustments to accrued liabilities, provision for loan losses and certain reclassification entries. All applicable amounts relating to this Restatement have been reflected in the consolidated financial statements and disclosed in the notes to the consolidated financial statements in this Form 10-Q.

#### Correction of Immaterial Error

The Company identified and has corrected an error regarding the accounting of a pool of loans serviced by a third party. The accounting adjustments are related to rate changes processed by the servicer to Carver client accounts that were not timely processed by the Bank on to its core provider system. Management evaluated the materiality of the error from qualitative and quantitative perspectives and concluded that the error was immaterial to the prior period financial statements taken as a whole.

The error correction reduced accrued interest receivable by \$446 thousand as of October 1, 2016; of this amount \$23 thousand and \$22 thousand, respectively, related to the quarters ended September 30, 2016 and June 30, 2016, respectively, and have been recorded as a decrease to loan interest income during the quarter ended December 31, 2016. The remaining \$401 thousand related to errors accumulated over several prior years and has been recorded during the quarter ended December 31, 2016 as an increase to other non-interest expense. The error correction also reduced loans receivable by \$52 thousand, which is reflected in other non-interest expense during the quarter ended December 31, 2016. The cumulative impact of the errors on net income for the three and nine months ended December 31, 2016 was a decrease of \$498 thousand and \$453 thousand, respectively.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended December 31, 2016 are not necessarily indicative of the results that may be expected for the year ended March 31, 2017. The consolidated balance sheet at December 31, 2016 has been derived from the unaudited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended March 31, 2016. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, valuation of real estate owned, realization of deferred tax assets, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future writedowns of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

Certain comparative amounts for the prior period have been reclassified to conform to current period presentations. Such reclassifications had no effect on net income or shareholders' equity. These comparative amounts relate to the statements of cash flows and the items disclosed therein, but had no material effect on the total net cash flows from operating, investing and financing activities.

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

## NOTE 3. EARNINGS PER COMMON SHARE



Edgar Filing: CARVER BANCORP INC - Form 10-Q

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

8

---

Edgar Filing: CARVER BANCORP INC - Form 10-Q

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015 Restated (1)	2016	2015 Restated (1)
\$ in thousands except per share data				
Earnings per common share				
Net (loss) income as reported	\$(1,156)	\$ 570	(1,000 )	859
Less: Participated securities share of undistributed earnings	—	341	—	514
Net (loss) income available to common shareholders of Carver Bancorp, Inc.	\$(1,156)	\$ 229	\$(1,000)	\$ 345
Weighted average common shares outstanding	3,696,420	3,696,420	3,696,420	3,696,420
Effect of dilutive MRP shares	—	4,000	—	4,000
Weighted average common shares outstanding – diluted	3,696,420	3,700,420	3,696,420	3,700,420
Basic (loss) earnings per common share	\$(0.31 )	\$ 0.06	\$(0.27 )	\$ 0.09
Diluted (loss) earnings per common share	\$(0.31 )	\$ 0.06	\$(0.27 )	\$ 0.09

(1) December 31, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

#### NOTE 4. COMMON STOCK DIVIDENDS

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

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

On May 24, 2016, the Bank entered into a Formal Agreement with the OCC to undertake certain compliance-related and other actions as further described in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on May 27, 2016. As a result of the Formal Agreement, the Bank may not declare or pay dividends or make any other capital distributions, including to the Company, without first filing an application with the OCC and receiving the prior approval of the OCC.

#### NOTE 5. OTHER COMPREHENSIVE LOSS

The following tables set forth changes in each component of accumulated other comprehensive loss, net of tax for the nine months ended December 31, 2016 and 2015:

	At March 31, 2016		Other Comprehensive Loss, net of tax	At December 31, 2016	
Nine months ended December 31, 2016					
\$ in thousands					
Net unrealized loss on securities available-for-sale	\$(307)		\$(1,794 )		\$(2,101 )

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Accumulated other comprehensive loss, net of tax \$(307) \$ (1,794 ) \$(2,101 )

Nine months ended December 31, 2015	Other		At December 31, 2015
	At March 31, 2015	Comprehensive Loss, net of tax	
\$ in thousands			
Net unrealized loss on securities available-for-sale	\$(1,045)	\$ (365 )	\$(1,410 )
Accumulated other comprehensive loss, net of tax	\$(1,045)	\$ (365 )	\$(1,410 )

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

	For the Three Months Ended December 31, 2016	For the Nine Months Ended December 31, 2015		Affected Line Item in the Consolidated Statement of Operations	
\$ in thousands					
Reclassification adjustment for sales of available-for-sale securities, net of tax	\$ —	\$ —	\$ 58	\$ 1	Gain on sale of securities
Total reclassifications for the period	\$ —	\$ —	\$ 58	\$ 1	

#### NOTE 6. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC Subtopic 320-10-25 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At December 31, 2016, \$60.0 million, or 81.2%, of the Bank's total securities were classified as available-for-sale, and the remaining \$13.9 million, or 18.8%, were classified as held-to-maturity. The Bank had no securities classified as trading at December 31, 2016 and March 31, 2016.

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at December 31, 2016:

	Amortized Cost	Gross Unrealized Gains Losses		Estimated Fair-Value
\$ in thousands				
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	\$ 2,631	\$—	\$83	\$ 2,548
Federal Home Loan Mortgage Corporation	8,275	—	207	8,068
Federal National Mortgage Association	27,856	—	1,005	26,851
Other	45	—	—	45
Total mortgage-backed securities	38,807	—	1,295	37,512
U.S. Government Agency Securities	7,848	—	125	7,723
Corporate bonds	5,110	—	185	4,925
Other investments <sup>(1)</sup>	10,360	—	496	9,864
Total available-for-sale	\$ 62,125	\$—	\$ 2,101	\$ 60,024
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	\$ 1,988	\$ 109	\$—	\$ 2,097
Federal National Mortgage Association and Other	10,925	—	138	10,787
Total held-to-maturity mortgage-backed securities	12,913	109	138	12,884
Corporate Bonds	1,000	23	—	1,023
Total held-to maturity	13,913	132	138	13,907

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Total securities \$ 76,038 \$ 132 \$ 2,239 \$ 73,931

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

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

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2016:

10

---

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	\$ 4,578	\$45	\$ —	\$ 4,623
Federal Home Loan Mortgage Corporation	7,778	—	100	7,678
Federal National Mortgage Association	7,860	—	36	7,824
Other	45	—	—	45
Total mortgage-backed securities	20,261	45	136	20,170
U.S. Government Agency Securities	26,077	27	35	26,069
Other investments <sup>(1)</sup>	10,148	—	207	9,941
Total available-for-sale	\$ 56,486	\$72	\$ 378	\$ 56,180
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	\$ 2,379	\$150	\$ —	\$ 2,529
Federal National Mortgage Association and Other	11,932	192	—	12,124
Total held-to-maturity mortgage-backed securities	14,311	342	—	14,653
Corporate Bonds	1,000	—	—	1,000
Total held-to-maturity	15,311	342	—	15,653
Total securities	\$ 71,797	\$414	\$ 378	\$ 71,833

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

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

The following is a summary regarding proceeds, gross gains and gross losses realized from the sale of securities from the available-for-sale portfolio for the three and nine months ended December 31, 2016 and 2015:

\$ in thousands	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
Proceeds	\$ —	\$ —	—\$7,259	\$4,951
Gross Gains	—	—	58	2
Gross Losses	—	—	—	1

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at December 31, 2016 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	\$1,240	\$35,517	\$55	\$1,949	\$1,295	\$37,466
U.S. Government Agency Securities	125	7,723	—	—	125	7,723

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Corporate bonds	185	4,925	—	—	185	4,925
Other investments <sup>(1)</sup>	—	—	496	9,504	496	9,504
Total available-for-sale securities	\$1,550	\$48,165	\$551	\$11,453	\$2,101	\$59,618

Held-to-Maturity:

Mortgage-backed securities	138	10,661	—	—	138	10,661
Total held-to-maturity securities	138	10,661	—	—	138	10,661
Total securities	\$1,688	\$58,826	\$551	\$11,453	\$2,239	\$70,279

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

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at March 31, 2016 for less than 12 months and 12 months or longer:

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	Less than 12 months or 12 months longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities	\$—	\$—	\$136	\$15,502
U.S. Government Agency Securities	3	2,996	32	11,242
Other investments <sup>(1)</sup>	—	—	207	9,793
Total available-for-sale securities	\$3	\$2,996	\$375	\$36,537

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

A total of 34 securities had an unrealized loss at December 31, 2016 compared to 13 at March 31, 2016. There was one mortgage-backed security and one investment in a CRA fund that had an unrealized loss position for more than 12 months at December 31, 2016. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, the risk of credit loss is minimal. Management believes that these unrealized losses are a direct result of the current rate environment and has the ability and intent to hold the securities until maturity or the valuation recovers.

The amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Company will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). At December 31, 2016, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

The following is a summary of the carrying value (amortized cost) and fair value of securities at December 31, 2016, 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.

\$ in thousands	Amortized Cost	Fair Value	Weighted Average Yield	
Available-for-Sale:				
One through five years	\$ 5,070	\$4,962	1.65	%
Five through ten years	14,574	14,104	1.99	%
After ten years	42,481	40,958	1.43	%
Total	\$ 62,125	\$60,024	1.58	%
Held-to-maturity:				
Five through ten years	\$ 6,654	\$6,652	3.05	%
After ten years	7,259	7,255	2.20	%
Total	\$ 13,913	\$13,907	2.61	%

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

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



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

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

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following is a summary of loans receivable, gross of allowance for loan losses, and net of loans held-for-sale at December 31, 2016 and March 31, 2016:

\$ in thousands	December 31, 2016		March 31, 2016	
	Amount	Percent	Amount	Percent
Gross loans receivable:				
One-to-four family	\$136,298	26 %	\$141,243	24 %
Multifamily	70,836	13 %	94,202	16 %
Commercial real estate	249,908	47 %	272,497	47 %
Construction	4,996	1 %	5,033	1 %
Business <sup>(1)</sup>	66,476	13 %	71,277	12 %
Consumer <sup>(2)</sup>	302	— %	42	— %
Total loans receivable	\$528,816	100 %	\$584,294	100 %
Unamortized premiums, deferred costs and fees, net	4,475		4,725	
Allowance for loan losses	(4,620 )		(5,232 )	
Total loans receivable, net	\$528,671		\$583,787	
Loans HFS	\$16,103		\$2,495	

<sup>(1)</sup> Includes business overdrafts

<sup>(2)</sup> Includes personal loans and consumer overdrafts

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the three and nine month periods ended December 31, 2016 and 2015, and the fiscal year ended March 31, 2016.

Three months ended December 31, 2016

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 1,654	\$ 672	\$ 1,743	\$ 50	\$ 577	\$ 2	49	\$4,747
Charge-offs	4	37	—	—	—	13	—	54
Recoveries	—	—	4	—	51	—	—	55
Provision for (Recovery of) Loan Losses	(33 )	54	(180 )	70	(29 )	39	(49 )	(128 )
Ending Balance	\$ 1,617	\$ 689	\$ 1,567	\$ 120	\$ 599	\$ 28	\$ —	\$4,620

Nine months ended December 31, 2016

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 1,697	\$ 622	\$ 1,808	\$ 62	\$ 1,022	\$ 21	\$ —	\$5,232
Charge-offs	66	288	—	—	—	54	—	408
Recoveries	—	—	14	—	270	4	—	288
Provision for (Recovery of) Loan Losses	(14 )	355	(255 )	58	(693 )	57	—	(492 )
Ending Balance	\$ 1,617	\$ 689	\$ 1,567	\$ 120	\$ 599	\$ 28	\$ —	\$4,620

Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	\$ 1,369	\$ 689	\$ 1,537	\$ 120	\$ 541	\$ 25	\$ —	\$4,281
---	----------	--------	----------	--------	--------	-------	------	---------

Allowance for Loan Losses Ending Balance: individually evaluated for impairment	248	—	30	—	58	3	—	339
---	-----	---	----	---	----	---	---	-----

Loan Receivables Ending Balance:	\$ 138,634	\$ 72,074	\$ 250,880	\$ 4,962	\$ 66,439	\$ 302	\$ —	\$533,291
----------------------------------	------------	-----------	------------	----------	-----------	--------	------	-----------

Ending Balance: collectively evaluated for impairment	133,111	70,471	246,409	4,962	60,893	299	—	516,145
---	---------	--------	---------	-------	--------	-----	---	---------

Ending Balance: individually evaluated for impairment	5,523	1,603	4,471	—	5,546	3	—	17,146
---	-------	-------	-------	---	-------	---	---	--------

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Fiscal year ended March 31, 2016

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	\$ 1,970	\$ 502	\$ 1,029	\$ 99	\$ 813	\$ 15	\$ 4,428
Charge-offs	389	340	—	—	176	517	1,422
Recoveries	113	—	9	—	578	31	731
Provision for (Recovery of) Loan Losses	3	460	770	(37 )	(193 )	492	1,495
Ending Balance	\$ 1,697	\$ 622	\$ 1,808	\$ 62	\$ 1,022	\$ 21	\$ 5,232
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment							
	1,602	622	1,787	62	548	21	4,642
Allowance for Loan Losses Ending Balance: individually evaluated for impairment							
	95	—	21	—	474	—	590
Loan Receivables Ending Balance:	\$ 143,667	\$ 95,648	\$ 273,470	\$ 5,000	\$ 71,192	\$ 42	\$ 589,019
Ending Balance: collectively evaluated for impairment	139,031	93,879	267,176	5,000	64,326	42	569,454
Ending Balance: individually evaluated for impairment	4,636	1,769	6,294	—	6,866	—	19,565

Three months ended December 31, 2015

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance (restated)	\$ 1,576	\$ 457	\$ 1,436	\$ 99	\$ 843	\$ 28	\$ 4,439
Charge-offs	77	—	—	—	43	28	148
Recoveries	—	68	1	—	59	27	155
Provision for (Recovery of) Loan Losses (restated)	131	87	470	(1 )	26	15	728
Ending Balance (restated)	\$ 1,630	\$ 612	\$ 1,907	\$ 98	\$ 885	\$ 42	\$ 5,174

Nine months ended December 31, 2015

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	\$ 1,970	\$ 502	\$ 1,029	\$ 99	\$ 813	\$ 15	\$ 4,428
Charge-offs	320	241	—	—	163	288	1,012
Recoveries	1	68	4	—	247	33	353
Provision for (Recovery of) Loan Losses	(21 )	283	874	(1 )	(12 )	282	1,405
Ending Balance	\$ 1,630	\$ 612	\$ 1,907	\$ 98	\$ 885	\$ 42	\$ 5,174
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment							
	1,533	612	1,907	98	785	42	4,977
Allowance for Loan Losses Ending Balance: individually evaluated for impairment							
	97	—	—	—	100	—	197

Allowance for Loan Losses Ending  
Balance: individually evaluated for  
impairment

Loan Receivables Ending Balance:	\$ 146,179	\$ 106,275	\$ 267,547	\$ 5,012	\$ 76,979	\$ 85	\$ 602,077
Ending Balance: collectively evaluated for impairment	141,483	105,046	262,261	5,012	71,471	85	585,358
Ending Balance: individually evaluated for impairment	4,696	1,229	5,286	—	5,508	—	16,719

The following is a summary of nonaccrual loans at December 31, 2016 and March 31, 2016.

\$ in thousands	December 31, 2016	March 31, 2016
Gross loans receivable:		
One-to-four family	\$ 3,466	\$2,947
Multifamily	1,603	1,769
Commercial real estate	1,004	5,338
Business	2,421	3,896
Consumer	3	—
Total nonaccrual loans	\$ 8,497	\$13,950

Nonaccrual loans generally consist of loans for which the accrual of interest has been discontinued as a result of such loans becoming 90 days or more delinquent as to principal and/or interest payments. Interest income on nonaccrual loans is recorded when received based upon the collectability of the loan. TDR loans consist of loans where borrowers have been granted concessions in regards to the terms of their loans due to financial or other difficulties, which rendered them unable to repay their loans under the original contractual terms. Total TDR loans at December 31, 2016 were \$7.6 million, \$1.6 million of which were non-performing as they were either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months. At March 31, 2016, total TDR loans were \$7.8 million, of which \$2.2 million were non-performing.

At December 31, 2016, other non-performing assets totaled \$2.3 million which consisted of other real estate owned and held-for-sale loans. At December 31, 2016, other real estate owned valued at \$1.2 million comprised of eight foreclosed properties which includes \$877 thousand of residential properties, compared to \$1.0 million comprised of seven properties, which included \$718 thousand of residential properties at March 31, 2016. At December 31, 2016, non performing held-for-sale loans totaled \$1.2 million, compared to \$2.5 million at March 31, 2016. At December 31, 2016, Carver had 22 loans secured by one-to-four family residential real estate in the process of foreclosure for a total outstanding balance of \$3.8 million.

Although we believe that substantially all risk elements at December 31, 2016 have been disclosed, it is possible that for a variety of reasons, including economic conditions, certain borrowers may be unable to comply with the contractual repayment terms on certain real estate and commercial loans.

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

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

Edgar Filing: CARVER BANCORP INC - Form 10-Q

As of December 31, 2016, the risk category by class of loans is as follows:

\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	\$ 70,471	\$ 245,243	\$ 4,962	\$ 57,669
Special Mention	—	1,166	—	841
Substandard	1,603	4,471	—	7,929
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$ 72,074	\$ 250,880	\$ 4,962	\$ 66,439
Credit Risk Profile Based on Payment Activity:				
Performing			\$ 135,168	\$ 299
Non-Performing			3,466	3
Total			\$ 138,634	\$ 302

As of March 31, 2016, and based on the most recent analysis performed, the risk category by class of loans is as follows:

\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	\$ 93,879	\$ 262,937	\$ 5,000	\$ 61,331
Special Mention	—	4,239	—	2,039
Substandard	1,769	6,294	—	7,822
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$ 95,648	\$ 273,470	\$ 5,000	\$ 71,192
Credit Risk Profile Based on Payment Activity:				
Performing			\$ 140,720	\$ 42
Non-Performing			2,947	—
Total			\$ 143,667	\$ 42

The following table presents an aging analysis of the recorded investment of past due financing receivable as of December 31, 2016 and March 31, 2016.

December 31, 2016

\$ in thousands	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total		
				Past Due	Current	Total Financing Receivables
One-to-four family	\$1,607	\$1,044	\$3,022	\$5,673	\$132,961	\$138,634
Multifamily	—	—	797	797	71,277	72,074
Commercial real estate	4,440	—	880	5,320	245,560	250,880
Construction	—	—	—	—	4,962	4,962
Business	15	5	2,409	2,429	64,010	66,439



Edgar Filing: CARVER BANCORP INC - Form 10-Q

Consumer	3	4	3	10	292	302
Total	\$6,065	\$1,053	\$7,111	\$14,229	\$519,062	\$ 533,291

17

---

Edgar Filing: CARVER BANCORP INC - Form 10-Q

March 31, 2016

\$ in thousands	30-59	60-89	Greater	Total	Current	Total
	Days	Days	Than	Past		Financing
	Past	Past	90	Past		Receivables
	Due	Due	Days	Due		
One-to-four family	\$986	\$—	\$2,628	\$3,614	\$140,053	\$143,667
Multifamily	—	—	1,769	1,769	93,879	95,648
Commercial real estate	889	3,410	—	4,299	269,171	273,470
Construction	—	—	—	—	5,000	5,000
Business	2,495	307	1,972	4,774	66,418	71,192
Consumer	2	—	—	2	40	42
Total	\$4,372	\$3,717	\$6,369	\$14,458	\$574,561	\$589,019

The following table presents information on impaired loans with the associated allowance amount, if applicable, at December 31, 2016 and March 31, 2016.

\$ in thousands	At December 31, 2016			At March 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:						
One-to-four family	\$3,364	\$4,109	\$ —	\$2,909	\$4,101	\$ —
Multifamily	1,603	2,088	—	1,769	2,122	—
Commercial real estate	1,946	2,110	—	5,405	5,572	—
Business	2,972	3,168	—	4,223	4,403	—
With an allowance recorded:						
One-to-four family	2,159	2,331	248	1,727	1,727	95
Commercial real estate	2,525	2,525	30	889	889	21
Business	2,574	2,574	58	2,643	2,643	474
Consumer and other	3	3	3	—	—	—
Total	\$17,146	\$18,908	\$ 339	\$19,565	\$21,457	\$ 590

The following tables presents information on average balances on impaired loans and the interest income recognized on a cash basis for the three and nine month period ended December 31, 2016 and 2015.

\$ in thousands	For the Three Months Ended December 31,				For the Nine Months Ended December 31,			
	2016		2015		2016		2015	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
With no specific allowance recorded:								
One-to-four family	\$3,220	\$ —	\$3,062	\$ 9	\$2,927	\$ 7	\$2,863	\$ 14
Multifamily	1,608	—	1,236	6	1,689	6	1,296	13
Commercial real estate	1,952	9	1,860	14	1,969	9	1,865	31
Business	3,459	—	2,723	21	3,842	128	2,772	64
With an allowance recorded:								
One-to-four family	2,163	4	1,652	19	2,174	5	1,660	23
Commercial real estate	1,429	—	3,427	—	1,431	—	1,142	—
Business	2,581	—	2,838	32	2,639	37	—	—
Consumer and other	3	—	—	—	1	—	2,909	67
Total	\$16,415	\$ 13	\$16,798	\$ 101	\$16,672	\$ 192	\$14,507	\$ 212

In certain circumstances, the Bank will modify a loan as part of a troubled debt restructure ("TDR") under ASC Subtopic 310-40 and the related allowance under ASC Subtopic 310-10-35. Situations around these modifications 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. Loans modified in TDRs are placed on nonaccrual 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. There were no TDR modifications made during the three and nine month periods ended December 31, 2016.

The following table presents an analysis of those loan modifications that were classified as TDRs during the nine month period ended December 31, 2015.

\$ in thousands	Modifications to loans during the nine month period ended December 31, 2015					
	Number of recorded loans investment	Pre-modification outstanding recorded investment	Post-modification recorded investment	Pre-Modification rate	Post-Modification rate	
One-to-four family	1	\$ 96	\$ 96	2.63	%	2.63 %

In an effort to proactively resolve delinquent loans, Carver has selectively extended to certain borrowers concessions such as extensions, rate reductions or forbearance agreements. For the periods ended December 31, 2016 and 2015, there were no modified loans that subsequently defaulted within the last 12 months.

At December 31, 2016, there were 13 loans in the TDR portfolio totaling \$6.0 million that were on accrual status as the Company has determined that future collection of the principal and interest is reasonably assured. These have generally performed according to restructured terms for a period of at least six months. At March 31, 2016, there were 11 loans in the performing TDR portfolio totaling \$5.6 million.

#### Transactions With Certain Related Persons

Federal law requires that all loans or extensions of credit to executive officers and directors must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public and must not involve more than the normal risk of repayment or present other unfavorable features. Loans to our current directors, principal officers, nominees for election as directors, security holders known by us to own more than 5% of the outstanding shares of common stock, or associates of such persons (together, "related persons"), are made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to Carver Federal, and do not involve more than the normal risk of collectibility or present other unfavorable features.

The aggregate amount of loans outstanding to related parties was \$4.5 million at December 31, 2016 and \$4.4 million at March 31, 2016. During the nine months ended December 31, 2016, advances totaled \$1.5 million and principal repayments totaled \$1.4 million. These loans were made in the ordinary course of business, on substantially the same terms, including collateral, as those prevailing at the time for comparable loans with persons not related to Carver Federal, and do not involve more than the normal risk of collectibility or present other unfavorable features.

Furthermore, loans above the greater of \$25,000, or 5% of Carver Federal's capital and surplus (up to \$500,000), to Carver Federal's directors and executive officers must be approved in advance by a majority of the disinterested members of Carver Federal's Board of Directors.

#### NOTE 8. FAIR VALUE MEASUREMENTS

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 December 31, 2016 and March 31, 2016, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

\$ in thousands	Fair Value Measurements at December 31, 2016, Using Quoted Prices in Active Markets for Identical Assets (Level 1)			Total Fair Value
	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Mortgage servicing rights	\$—	\$ 193		\$193
Investment securities Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—2,548	—		2,548
Federal Home Loan Mortgage Corporation	—8,068	—		8,068
Federal National Mortgage Association	—26,851	—		26,851
Other	—	45		45
U.S. Government Agency Securities	—7,723	—		7,723
Corporate bonds	—4,925	—		4,925
Other investments	—9,504	360		9,864
Total available-for-sale securities	—59,619	405		60,024
Total	\$— 59,619	\$ 598		\$60,217

\$ in thousands	Fair Value Measurements at March 31, 2016, Using <sup>(1)</sup> Quoted Prices in Active Markets for Identical Assets (Level 1)			Total Fair Value
	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Mortgage servicing rights	\$—	\$ 201		201
Investment securities Available-for-sale:				

## Mortgage-backed securities:

Government National Mortgage Association	—4,623	—	4,623
Federal Home Loan Mortgage Corporation	—7,678	—	7,678
Federal National Mortgage Association	—7,824	—	7,824
Other	—	45	45
U.S. Government Agency securities	—26,069	—	26,069
Other investments	—9,793	148	9,941
Total available-for-sale securities	—55,987	193	56,180
Total	\$—55,987	\$ 394	\$56,381

<sup>(1)</sup> March 31, 2016 has been corrected from previously reported amounts for the classification of a private equity investment from Level 2 to Level 3.

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights (“MSR”) and other available-for-sale securities. Level 3 assets accounted for 0.09% of the Company’s total assets measured at fair value at December 31, 2016 and 0.05% at March 31, 2016.

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.

Below is a description of the methods and significant assumptions utilized in estimating the fair value of available-for-sale securities and MSR:

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

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 the three and nine month period ended December 31, 2016, there were no transfers of investments into or out of each level of the fair value hierarchy.

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 the MSRs is not available. Therefore, MSRs 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 rates.

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.

The following table includes a rollforward of assets classified by the Company within Level 3 of the valuation hierarchy for the nine months ended December 31, 2016 and 2015:

	Beginning balance, April 1, 2016	Total Realized/Unrealized Gains/(Losses) Recorded in Income (1)	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, December 31, 2016	Unrealized Gains and (Losses) Related to Instruments Held at December 31, 2016
\$ in thousands						
Securities Available-for-Sale	\$ 193	\$ —	\$ 212	\$ —	\$ 405	\$ —
Mortgage servicing rights	201	(8 )	—	—	193	(8 )
\$ in thousands						
	Beginning balance, April 1, 2015	Total Realized/Unrealized Gains/(Losses) Recorded in Income (1)	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, December 31, 2015	Unrealized Gains and (Losses) Related to Instruments Held at



Edgar Filing: CARVER BANCORP INC - Form 10-Q

						December 31, 2015
Securities Available-for-Sale	\$ 47	\$ —	\$ (1 )	\$ —	—\$ 46	\$ —
Mortgage servicing rights	210	(5 )	—	—	205	(4 )

<sup>(1)</sup> Includes net servicing cash flows and the passage of time.

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g. when there is evidence of impairment). The following table presents assets and liabilities that were measured at fair value on a non-recurring basis as of December 31, 2016 and March 31, 2016, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

	Fair Value Measurements at December 31, 2016, Using		
	Quoted Prices in Significant Other Markets Observable Inputs for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			Total Fair Value
\$ in thousands			
Impaired loans with a specific reserve allocated	—	6,922	\$6,922
Other real estate owned	—	1,166	\$1,166

	Fair Value Measurements at March 31, 2016, Using		
	Quoted Prices in Significant Other Markets Observable Inputs for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			Total Fair Value
\$ in thousands			
Loans held-for-sale	\$—	—\$ 2,495	\$2,495
Impaired loans with a specific reserve allocated	—	4,669	\$4,669
Other real estate owned	—	1,008	\$1,008

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 December 31, 2016 was based upon amounts offered, or other acceptable valuation methods and, in some instances, prior loan loss experience of the Bank in connection with recent note sales.

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

Other real estate owned represents 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. At the time of acquisition of the real estate owned, the real property value is adjusted to its current fair value. Any subsequent adjustments will be to the lower of cost or market.

#### NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures regarding the fair value of financial instruments are required to include, in addition to the carrying value, the fair value of certain financial instruments, both assets and liabilities recorded on and off-balance sheet, for which it is practicable to estimate fair value. Accounting guidance defines financial instruments as cash, evidence of ownership of an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument. The fair value of a financial instrument is discussed below. In cases

where quoted market prices are not available, estimated fair values have been determined by the Bank using the best available data and estimation methodology suitable for each such category of financial instruments. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate their recorded carrying value. The Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the Bank's fair value of all interest-earning assets and interest-bearing liabilities, other than those which are short-term in maturity.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The carrying amounts and estimated fair values of the Bank's financial instruments and estimation methodologies at December 31, 2016 and March 31, 2016 are as follows:

December 31, 2016					
\$ in thousands	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$61,464	\$ 61,464	\$ 61,464	\$ —	—
Restricted cash	269	269	—	269	—
Securities available-for-sale	60,024	60,024	—	59,619	405
FHLB Stock	2,576	2,576	—	2,576	—
Securities held-to-maturity	13,913	13,907	—	13,907	—
Loans receivable	528,671	543,351	—	—	543,351
Loans held-for-sale	16,103	16,103	—	—	16,103
Accrued interest receivable	3,125	3,125	—	3,125	—
Mortgage servicing rights	193	193	—	—	193
Other assets - Interest-bearing deposits	984	984	—	984	—
<b>Financial Liabilities:</b>					
Deposits	578,158	546,597	306,466	240,131	—
Advances from FHLB of New York	39,000	38,987	—	38,987	—
Repos	1,000	1,002	—	1,002	—
Other borrowed money	18,403	17,591	—	17,591	—
Accrued interest payable	124	124	—	124	—

March 31, 2016 <sup>(1)</sup>					
\$ in thousands	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$63,660	\$ 63,660	\$ 63,660	\$ —	—
Restricted cash	225	225	—	225	—
Securities available-for-sale	56,180	56,180	—	55,987	193
FHLB Stock	2,883	2,883	—	2,883	—
Securities held-to-maturity	15,311	15,653	—	15,653	—
Loans receivable	583,787	585,650	—	—	585,650
Loans held-for-sale	2,495	2,495	—	—	2,495
Accrued interest receivable	3,647	3,647	—	3,647	—
Mortgage servicing rights	201	201	—	—	201
Other assets - Interest-bearing deposits	983	983	—	983	—
<b>Financial Liabilities:</b>					

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Deposits	606,741	585,394	329,398	255,996	—
Advances from FHLB of New York	50,000	50,141	—	50,141	—
Other borrowed money	18,403	18,734	—	18,734	—
Accrued interest payable	2,174	2,174	—	2,174	—

<sup>(1)</sup> March 31, 2016 has been corrected from previously reported amounts for the classification of a private equity investment from Level 2 to Level 3.

#### Cash and Cash Equivalents

The carrying amounts for cash and cash equivalents approximate fair value and are classified as Level 1 because they mature in three months or less.

#### Restricted Cash

The carrying amounts for restricted cash approximate fair value and are classified as Level 2 because they represent short-term interest-bearing deposits.

#### Securities

The fair values for securities available-for-sale and 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. Available-for-sale securities are classified across Levels 2 and 3. Held-to-maturity securities are classified as Level 2.

#### FHLB-NY Stock

Ownership in equity securities of the FHLB-NY is restricted and there is no established market for resale. The carrying amount is at cost, which is the estimated fair value, and is classified as Level 2.

#### 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. Loans receivable are classified as Level 3.

#### Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or market value and are classified as Level 3. The valuation methodology for loans held-for-sale are based upon amounts offered or other acceptable valuation methods and, in some instances, prior loan loss experience of Carver in connection with recent note sales.

#### Accrued Interest Receivable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

#### 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 and are classified as Level 3.

#### Interest-Bearing Deposits

The carrying amounts for interest-bearing deposits approximates fair value and are classified as Level 2 because they represent interest-bearing deposits with a maturity greater than one year.

#### Deposits

The fair value of demand, savings and club accounts is equal to the amount payable on demand at the reporting date. These deposits are classified as Level 1. The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities resulting in a Level 2 classification. 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.

#### FHLB-NY Advances, Repos and Other Borrowed Money

The fair values of advances from the FHLB-NY, Repos and other borrowed money are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities and are classified as Level 2.

#### Accrued Interest Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

#### Commitments to Extend Credits, Commercial, and Standby Letters of Credit

The fair value of the commitments to extend credit was estimated to be immaterial as of December 31, 2016 and March 31, 2016. 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.

#### NOTE 10. IMPACT OF RECENT ACCOUNTING STANDARDS NOT YET ADOPTED

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard, as modified and augmented by subsequently issued pronouncements is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company currently believes the impact of adopting the standard, as modified and augmented by subsequently issued pronouncements, will not be material to either past or future periods as it relates to the Company's core banking revenue streams, but is still evaluating the potential impact the new standard will have on other non-interest income. Adoption of the new standard could require expanded disclosures.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The amendments are intended to clarify consolidation guidance for legal entities such as limited partnerships and limited liability companies and simplify consolidation accounting by reducing the number of consolidation models. ASU No. 2015-02 is effective for periods beginning after December 15, 2015. The adoption of the standard did not have a material impact on the Company's consolidated statements of financial condition and results of operations.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments will (1) require equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (4) require public business entities to use an exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) require an entity to separately present in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the



instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements, and (7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of the standard is not expected to have a material impact on the Company's consolidated statements of financial condition and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard

requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company currently expects that upon adoption of ASU 2016-02, ROU assets and lease liabilities will be recognized in the consolidated balance sheet in amounts that will be material.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606)," which amends the revenue recognition standard that was issued in 2014. The amendments clarify the guidance on assessing collectibility, presenting sales taxes, measuring noncash consideration, and certain transition matters. ASU 2016-12 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The Company is currently evaluating the potential impact of the adoption of the new standard on its consolidated statements of financial condition and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Loss," which updates the guidance on recognition and measurement of credit losses for financial assets. The new requirements, known as the current expected credit loss model (CECL) will require entities to adopt an impairment model based on expected losses rather than incurred losses. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the potential impact of the adoption of the new standard on its consolidated statements of financial condition and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," a consensus of the FASB's Emerging Issues Task Force. The update is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows, and provides guidance on how the following cash receipts and payments should be presented and classified in the statement of cash flows: debt prepayment or debt extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, settlements of insurance claims, settlements of corporate-owned and bank-owned life insurance policies, distributions received from equity method investees, and beneficial interests in securitization transactions. The ASU also clarifies when an entity should separate cash receipts and payments and classify them into more than one class of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the potential impact of the adoption of the new standard on its consolidated statement of cash flows.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," to require that a statement of cash flows explain the change during the period in restricted cash or restricted cash equivalents, in addition to changes in cash and cash equivalents. The update provides guidance that restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has completed its assessment of the impact of adopting of ASU 2016-18 and expects that as a result of adopting the ASU, the Company will reclassify beginning-of-period and end-of-period balances in the statement of cash flows to include restricted cash in addition to cash and cash equivalents at amounts that will not be material to the consolidated financial statements.

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

### Explanatory Note

Within this report, we have included restated results for the three and nine months ended December 31, 2015, which are noted as “Restated 2015”. Our consolidated financial statements as of and for the three and nine months ended December 31, 2015 included in this Quarterly Report on Form 10-Q have been restated from the original filing.

#### 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 comparative 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 that could cause actual results to differ materially from these estimates. These factors include but are not limited to the following:

The effect of the Restatement of our previously issued financial statements for the year ended March 31, 2015 and the quarterly periods of 2015 and 2016 as described in Note 1 to the restated financial statements on Form 10-K, filed with the SEC on August 12, 2016, and any claims, investigations, or proceedings arising as a result;

Our ability to remediate the material weakness in our internal controls over financial reporting described in Item 9A of our annual report on Form 10-K and our ability to maintain effective internal controls and procedures in the future;

the ability of the Bank to comply with the Formal Agreement between the Bank and the Office of the Comptroller of the Currency, and the effect of the restrictions and requirements of the Formal Agreement on the Bank's non-interest expenses and net income;

the ability of the Company to obtain approval from the Federal Reserve Bank to distribute all future interest payments owed to the holders of the Company's subordinated debt securities;

the limitations imposed on the Company by board resolutions which require, among other things, written approval of the Federal Reserve Bank of Philadelphia prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock, and the effect on operations resulting from such limitations;

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

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

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

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

changes in our existing loan portfolio composition (including reduction in commercial real estate loan concentration) and credit quality or changes in loan loss requirements;

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

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

changes in the level of government support of housing finance;

•

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

our ability to control costs and expenses;

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

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

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

27

---

- changes in consumer spending, borrowing and savings habits;
- technological changes that may be more difficult to implement or more costly than anticipated;
- changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities, which may adversely affect our business;
- changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies or the Financial Accounting Standards Board could negatively impact the Company's financial results;
- litigation or regulatory actions, whether currently existing or commencing in the future, which may restrict our operations or strategic business plan;
- the ability to originate and purchase loans with attractive terms and acceptable credit quality; and
- the ability to attract and retain key members of management, and to address staffing needs in response to product demand or to implement business initiatives.

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

## Overview

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

Carver Federal is among the largest African-American operated banks 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 fourth consecutive "Outstanding" rating, issued by the OCC following its most recent Community Reinvestment Act ("CRA") examination in January 2016. The OCC found that approximately 75% of originated and purchased loans were within Carver's assessment area, and the Bank has demonstrated excellent responsiveness to its assessment area's needs through its community development lending, investing and service activities. The Bank had approximately \$698.9 million in assets and 133 employees as of December 31, 2016.

Carver Federal engages in a wide range of consumer and commercial banking services. Carver Federal provides deposit products, including demand, savings and time deposits for consumers, businesses, and governmental and

quasi-governmental agencies in its local market area within New York City. In addition to deposit products, Carver Federal offers a number of other consumer and commercial banking products and services, including debit cards, online banking, online bill pay and telephone banking. Carver Federal also offers a suite of products and services for unbanked and underbanked consumers, branded as Carver Community Cash. This includes check cashing, wire transfers, bill payment, reloadable prepaid cards and money orders.

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

Carver Federal's more than 65 year history in its market area, its community involvement and relationships, targeted products and services and personal service consistent with community banking, help the Bank compete with competitors that have entered its market.

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

#### New Markets Tax Credit Award

The New Markets Tax Credit ("NMTC") award is used to stimulate economic development in low- to moderate-income communities. The NMTC award enables the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating revitalization of the community, pursuant to the goals of the NMTC program. NMTC awards provide a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. The credits are allocated over seven years from the time of the qualified investment. Alternatively, the Bank can utilize the award in projects where another investor entity provides funding and receives the tax benefits of the award in exchange for the Bank receiving fee income.

In June 2006, CCDC was selected by the U.S. Department of Treasury, in a highly competitive process, to receive an award of \$59 million in NMTC. CCDC won a second NMTC award of \$65 million in May 2009, and a third award of \$25 million in August 2011. 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 entity that acquired the equity interest. In March 2015, the investor exercised its option to sell the equity interest in the entities back to Carver. The NMTC compliance period was completed and CDEs 2-9, 11 and 12 were dissolved in March 2016. CCDC provides funding to underlying projects. While providing funding to investments in the NMTC eligible projects, CCDC has retained a 0.01% interest in other special purpose entities created to facilitate the investments, with the investors owning the remaining 99.99%. CCDC also provides certain



administrative services to these entities and receives servicing fee income during the term of the qualifying projects. 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 the entities' performance, and therefore are not the primary beneficiaries of these entities. The Bank has a contingent obligation to reimburse the investors for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the investors' ability to otherwise utilize tax credits stemming from the award. As of December 31, 2016, all three award allocations have been fully utilized in qualifying projects.

The Bank's variable interest entities ("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, are presented below.

Involvement with SPE (000's)	Funded Exposure		Unfunded Exposure		Total				
	Debt Investments	Equity Investments	Maximum Funding exposure commitments to loss						
\$ in thousands	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments	Maximum Funding exposure commitments to loss	
Carver Statutory Trust 1	\$ —	\$ —	\$ —	\$ 13,400	\$ 13,400	\$13,000	\$ 400	\$ —	\$ 13,400
CDE 1-9, CDE 11-12 <sup>(3)</sup>	—	40,000	2,285	—	2,285	—	—	—7,800	7,800
CDE 10 <sup>(2)</sup>	1,700	19,000	—	—	—	—	—	—7,410	7,410
CDE 13	500	10,500	—	—	—	—	1	—4,095	4,096
CDE 14	400	10,000	—	10,004	10,004	—	1	—3,900	3,901
CDE 15, CDE 16, CDE 17	900	20,500	—	20,623	20,623	—	2	—7,995	7,997
CDE 18	600	13,254	—	13,282	13,282	—	1	—5,169	5,170
CDE 19	500	10,746	—	10,982	10,982	—	1	—4,191	4,192
CDE 20	625	12,500	—	12,062	12,062	—	1	—4,875	4,876
CDE 21	625	12,500	—	12,114	12,114	—	1	—4,875	4,876
Total	\$ 5,850	\$ 149,000	\$ 2,285	\$ 92,467	\$ 94,752	\$ 13,000	\$ 408	\$ —50,310	\$ 63,718

<sup>(1)</sup> Excludes any proceeds realized from exchange of equity interest in CDEs as detailed above.

<sup>(2)</sup> Entity dissolved May 2015.

<sup>(3)</sup> CDEs 2-9, 11-12 dissolved March 2016.

### Critical Accounting Policies

Note 2 to the Company's audited Consolidated Financial Statements for the year ended March 31, 2016 included in its 2016 Form 10-K, as supplemented by this report, contains a summary of significant accounting policies. The Company believes its policies, with respect to the methodologies used to determine the allowance for loan and lease losses, securities impairment, and assessment of the recoverability of the deferred tax asset involve a high degree of complexity and require management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes 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 2016 Form 10-K.

#### 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 OCC on December 13, 2006 and in accordance with ASC Subtopics 450-20 "Loss Contingencies" and 310-10 "Accounting by Creditors for Impairment of a Loan." 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.

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 significant judgment applied in estimating the ALLL. These assumptions and estimates are susceptible to significant changes based on the current environment. 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. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio.

#### General Reserve Allowance

Carver's maintenance of a general reserve allowance in accordance with ASC Subtopic 450-20 includes the Bank's evaluating the risk to loss potential of homogeneous pools of loans based upon historical loss factors and a review of nine different environmental factors that are then applied to each pool. The pools of loans ("Loan Type") are:

30

---

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

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

- Pass
- 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 Bank estimates its historical charge-offs via a lookback analysis. The actual historical loss experience by major loan category is expressed as a percentage of the outstanding balance of all loans within the category. As the loss experience for a particular loan category increases or decreases, the level of reserves required for that particular loan category also increases or decreases. The Bank's historical charge-off rate reflects the period over which the charge-offs were confirmed and recognized, not the period over which the earlier losses occurred. That is, the charge-off rate measures the confirmation of losses over a period that occurs after the earlier actual losses. During the period between the loss-causing events and the eventual confirmations of losses, conditions may have changed. There is always a time lag between the period over which average charge-off rates are calculated and the date of the financial statements. During that period, conditions may have changed. Another factor influencing the General Reserve is the Bank's loss emergence period ("LEP") assumptions which represent the Bank's estimate of the average amount of time from the point at which a loss is incurred to the point at which the loss is confirmed, either through the identification of the loss or a charge-off. Based upon adequate management information systems and effective methodologies for estimating losses, management has established a LEP floor of one year on all segments. In some segments, such as in its Commercial Real Estate, Multifamily and Business, the Bank demonstrates a LEP in excess of 12 months. The Bank also recognizes losses in accordance with regulatory charge-off criteria.

Because actual loss experience may not adequately predict the level of losses inherent in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be adjusted 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 and classified loans individually reviewed for impairment in accordance with ASC Subtopic 310-10 guidelines. The amount assigned to the specific reserve allowance is individually determined based upon the loan. The ASC Subtopic 310-10 guidelines require 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 Bank may choose the appropriate ASC Subtopic 310-10 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 \$500,000 or more and loans below \$500,000 that the Chief Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Subtopic 310-10. 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 and classified loans to be evaluated collectively for impairment. Loans determined to be impaired are evaluated to determine the amount of impairment based on one of the three measurement methods noted above. The Bank then determines whether the impairment amount is permanent, in which case the loan is written down by the amount of the impairment, 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

TDRs are those loans whose terms have been modified because of deterioration in the financial condition of the borrower and a concession is made. Modifications could include extension of the terms of the loan, reduced interest rates, capitalization of interest 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 cash flow dependent loans, the Bank records a specific valuation allowance reserve equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the loan's original effective interest rate, and the loan's original carrying value. For a collateral dependent loan, the Bank records an impairment charge 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 nonaccrual status until they have performed in accordance with the restructured terms for a period of at least six months.

#### 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 (loss) income. 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. On a quarterly basis, the Bank reviews and evaluates the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. The Bank generally views changes in fair value caused by changes in interest rates as temporary, which is consistent with its experience. The amount of an other-than-temporary impairment, when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Bank will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive (loss) 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 December 31, 2016, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

## Deferred Tax Assets

The Company records income taxes in accordance with ASC 740 Topic "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. Management is continually reviewing the operation of the Company with a view to the future. Based on management's current analysis and the appropriate accounting literature,

management is of the opinion that a full valuation allowance is appropriate. 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 capital, which resulted in a \$51.4 million increase in equity after considering the effect of various expenses associated with the capital raise. 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 carryforwards, 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 \$900 thousand. The Company has a net deferred tax asset ("DTA") of \$0 since it has recorded a full valuation allowance on its DTA.

#### Stock Repurchase Program

On August 6, 2002, the Company announced a stock repurchase program to repurchase up to 15,442 shares of its outstanding common stock. As of December 31, 2016, 11,744 shares of its common stock have been repurchased in open market transactions at an average price of \$235.80 per share (as adjusted for 1-for-15 reverse stock split that occurred on October 27, 2011). The Company intends to use repurchased shares to fund its stock-based benefit and compensation plans and for any other purpose the Board deems advisable in compliance with applicable law. No shares were repurchased during the nine months ended December 31, 2016. As a result of the Company's participation in the TARP CDCI, the U.S. Treasury's prior approval is required to make further repurchases. On October 28, 2011, the U.S. Treasury converted its preferred stock into common stock, which the U.S. Treasury continues to hold. The Company continues to be bound by the TARP CDCI restrictions so long as the U.S. Treasury is a common stockholder.

#### 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 December 31, 2016.

Management believes Carver Federal's short-term assets have sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash requirements, including interest payments on our subordinated debt securities. Additionally, Carver Federal has other sources of liquidity including the ability to borrow from the Federal Home Loan Bank of New York ("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 \$10.0 million, or 14.6%, to \$58.4 million at December 31, 2016, compared to \$68.4 million at March 31, 2016 due to the repayment of short-term borrowings during the nine month period. At December 31, 2016, \$39.0 million of the Bank's borrowings with a weighted average rate of 1.24% was scheduled to mature over the next three years. Due to the late filing of Carver's 2016 Form 10-K, and the going concern language contained therein, the FHLB-NY notified Carver on July 1, 2016 that it would be restricting Carver's borrowings to 30-day terms. At December 31, 2016, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional \$7.2 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 December 31, 2016 and March 31, 2016, assets qualifying for short-term liquidity, including cash and cash equivalents, totaled \$61.5 million and \$63.7 million, respectively.

The most significant potential 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. Carver Federal is also at risk to deposit outflows.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During the nine months ended December 31, 2016, total cash and cash equivalents decreased \$2.2 million to \$61.5 million at

December 31, 2016, compared to \$63.7 million at March 31, 2016, reflecting cash used in financing activities of \$38.6 million and cash used in operating activities of \$379 thousand, offset by cash provided by investing activities of \$36.8 million.

Net cash used in financing activities of \$38.6 million resulted from repayments of FHLB-NY advances of \$10.0 million, and net decreases in deposits of \$28.6 million. Net cash provided by investing activities of \$36.8 million was primarily attributed to net loan principal repayments and was partially reinvested in a purchase of a residential loan pool. Also, cash proceeds from sales and calls of available-for-sale securities was reinvested in purchases of new investments to diversify the Bank's available-for-sale portfolio. Net cash used in operating activities totaled \$379 thousand during the quarter.

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. In common with all U.S. banks, Carver's capital adequacy is measured in accordance with the Basel III regulatory framework governing capital adequacy, stress testing, and market liquidity risk. The final rule, which became effective for the Bank on January 1, 2015, established a minimum Common Equity Tier 1 (CET 1) ratio, a minimum leverage ratio and increases in the Tier 1 and Total risk-based capital ratios. The rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. As of December 31, 2016, the Bank's capital conservation buffer ("buffer") was 0.625%, making its minimum CET 1 plus buffer 5.125%, its minimum Tier 1 capital plus buffer 6.625% and its minimum total capital plus buffer 8.625%. On January 1, 2017, the capital conservation buffer will increase to 1.25%. Regardless of Basel III's minimum requirements, Carver, as a result of the Formal Agreement, was issued an Individual Minimum Capital Ratio ("IMCR") letter by the OCC. The IMCR directive requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier1 leverage ratio and 12% for its total risk-based capital ratio.

The table below presents the capital position of the Bank at December 31, 2016:

	December 31, 2016	
(\$ in thousands)	Amount	Ratio
Tier 1 leverage capital		
Regulatory capital	\$65,887	9.51 %
Individual minimum capital requirement	62,335	9.00 %
Minimum capital requirement	27,704	4.00 %
Excess	38,183	5.51 %
Common equity Tier 1		
Regulatory capital	\$65,887	12.98 %
Minimum capital requirement	22,838	4.50 %
Excess	43,049	8.48 %
Tier 1 risk-based capital		
Regulatory capital	\$65,887	12.98 %
Minimum capital requirement	30,450	6.00 %
Excess	35,437	6.98 %
Total risk-based capital		
Regulatory capital	\$72,675	14.32 %

Individual minimum capital requirement	60,900	12.00%
Minimum capital requirement	40,600	8.00 %
Excess	32,075	6.32 %

#### Bank Regulatory Matters

On October 23, 2015 the Board of Directors of Carver Bancorp, Inc., in response to the FRB's Bank Holding Company Report of Inspection issued on April 14, 2015, adopted a Board Resolution ("the Resolution") as a commitment by the Company's Board to address certain supervisory concerns noted in the Reserve Bank's Report. The supervisory concerns are related to the Company's leverage, cash flow and accumulated deferred interest. As a result of those concerns, the Company is prohibited from paying any dividends without the prior written approval of the Reserve Bank.

On May 24, 2016, the Bank entered into a Formal Agreement with the OCC to undertake certain compliance-related and other actions as further described in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on May 27, 2016. As a result of the Formal Agreement, the Bank must obtain the approval of the OCC prior to effecting any change in its directors or senior executive officers. The Bank may not declare or pay dividends or make any other capital distributions, including to the Company, without first filing an application with the OCC and receiving the prior approval of the OCC. Furthermore, the Bank must seek the OCC's written approval and the FDIC's written concurrence before entering into any "golden parachute payments" as that term is defined under 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359.

At December 31, 2016, the Bank's capital level exceeded the regulatory requirements with a Tier 1 leverage capital ratio of 9.51%, Common Tier 1 capital ratio of 12.98%, Tier 1 risk-based capital ratio of 12.98%, and a total risk-based capital ratio of 14.32%.

#### Mortgage Representation and Warranty Liabilities

During the period 2004 through 2009, the Bank originated 1-4 family residential mortgage loans and sold the loans to the Federal National Mortgage Association ("FNMA"). The loans were sold to FNMA with the standard representations and warranties for loans sold to the Government Sponsored Entities (GSEs). The Bank may be required to repurchase these loans in the event of breaches of these representations and warranties. In the event of a repurchase, the Bank is typically required to pay the unpaid principal balance as well as outstanding interest and fees. The Bank then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The Bank is exposed to any losses on repurchased loans after giving effect to any recoveries on the collateral.

Through fiscal 2011 none of the loans sold to FNMA were repurchased by the Bank. During fiscal 2012, 2013, 2014 and 2015 three, ten, six and one loan, respectively, that had been sold to FNMA were repurchased by the Bank. There were no repurchases during fiscal 2016 and during the first nine months of fiscal 2017. At December 31, 2016, the Bank continues to service 135 loans with a principal balance of \$24.2 million for FNMA that had been sold with standard representations and warranties.

The following table presents information on open requests from FNMA. The amounts presented are based on outstanding loan principal balances.

\$ in thousands	Loans sold to FNMA
Open claims as of March 31, 2016 <sup>(1)</sup>	\$2,009
Gross new demands received	—
Loans repurchased/made whole	—
Demands rescinded	—
Advances on open claims	60
Principal payments received on open claims (18 )	
Open claims as of December 31, 2016 <sup>(1)</sup>	\$2,051

<sup>(1)</sup> The open claims include all open requests received by the Bank where either FNMA has requested loan files for review, where FNMA has not formally rescinded the repurchase request or where the Bank has not agreed to repurchase the loan. The amounts reflected in this table are the unpaid principal balance and do not incorporate any losses the Bank would incur upon the repurchase of these loans.

Management has established a representation and warranty reserve for losses associated with the repurchase of mortgage loans sold by the Bank to FNMA that we consider to be both probable and reasonably estimable. These reserves are reported in the consolidated statement of financial condition as a component of other liabilities. The reserves totaled \$156 thousand as of December 31, 2016.

The table below summarizes changes in our representation and warranty reserves during the nine months ended December 31, 2016:

\$ in thousands	December 31, 2016
Representation and warranty repurchase reserve, March 31, 2016 <sup>(1)</sup>	\$ 186
Net provision for repurchase losses <sup>(2)</sup>	(30 )
Representation and warranty repurchase reserve, December 31, 2016 <sup>(1)</sup>	\$ 156

<sup>(1)</sup> Reported in our consolidated statements of financial condition as a component of other liabilities.

<sup>(2)</sup> Component of other non-interest expense.

Comparison of Financial Condition at December 31, 2016 and March 31, 2016

Assets

At December 31, 2016, total assets were \$698.9 million, reflecting a decrease of \$42.9 million, or 5.8%, from total assets of \$741.7 million at March 31, 2016. The reduction is primarily attributable to a \$41.5 million decline in the loan portfolio (including loans held-for-sale). The decrease in the loan portfolio was largely attributable to loan attrition through scheduled paydowns and payoffs, which the Bank did not actively try to retain as it is making a determined effort to reduce the concentration of commercial real estate loans.

Total cash and cash equivalents decreased \$2.2 million, or 3.4%, to \$61.5 million at December 31, 2016, compared to \$63.7 million at March 31, 2016 due to loan and investment net cash inflow activity, the Bank's repayment of short-term borrowings and a reduction of brokered deposits during the period, which were largely offset by the aforementioned loan attrition.

Total investment securities increased \$2.4 million, or 3.4%, to \$73.9 million at December 31, 2016, compared to \$71.5 million at March 31, 2016, as cash generated from calls of securities was reinvested to diversify the Bank's available-for-sale investment portfolio.

Gross portfolio loans decreased \$55.7 million, or 9.5%, to \$533.3 million at December 31, 2016, compared to \$589.0 million at March 31, 2016, as the Bank began a targeted reduction of its concentration in commercial real estate mortgage loans through attrition in and payoffs of Non Owner Occupied CRE loans.

Loans held-for-sale ("HFS") increased \$13.6 million to \$16.1 million at December 31, 2016, compared to \$2.5 million at March 31, 2016. The Bank transferred \$15.0 million of portfolio loans to its held-for-sale portfolio during the second quarter. The transfer was an additional step in the strategic reduction of CRE loan concentration as the loans transferred represent CRE loans being marketed for sale.

Liabilities and Equity

Total liabilities decreased \$40.1 million, or 5.8%, to \$647.5 million at December 31, 2016, compared to \$687.5 million at March 31, 2016, as a result of declines in the Bank's deposits and the repayment of borrowed funds.

Deposits decreased \$28.6 million, or 4.7%, to \$578.2 million at December 31, 2016, compared to \$606.7 million at March 31, 2016, due primarily to declines in brokered money market accounts and brokered certificates of deposit. The Company did not actively pursue the retention of certain deposits as it has been seeking to reduce its overall level of brokered deposits.

Advances from the Federal Home Loan Bank of New York and other borrowed money decreased \$10.0 million, or 14.6%, to \$58.4 million at December 31, 2016, compared to \$68.4 million at March 31, 2016 due to the repayment of short-term borrowings during the period.

Total equity decreased \$2.8 million, or 5.2%, to \$51.4 million at December 31, 2016, compared to \$54.2 million at March 31, 2016. The decrease was due to an increase of \$1.8 million in unrealized losses on investments and net loss of \$1.0 million for the nine month period.

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 assets, and the credit quality of earning assets. Management's asset/liability objectives are to maintain a strong, stable net interest margin, to utilize the Company's 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 monitors the Company's cumulative gap position, which is the difference between the sensitivity to rate changes of the Company's interest-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 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.

The Bank has contractual obligations related to operating leases as well as a contingent liability related to a standby letter of credit as discussed in our Form 10-K for the year ended March 31, 2016.

The following table reflects the Bank's outstanding lending commitments and contractual obligations as of December 31, 2016:

\$ in thousands

Commitments to fund mortgage loans	\$2,102
Commitments to fund commercial and consumer loans	2,800
Lines of credit	9,153
Letters of credit	211
Commitment to fund private equity investment	640
Total	\$14,906

Comparison of Operating Results for the Three and Nine Months Ended December 31, 2016 and 2015

Overview

The Company reported a net loss of \$1.2 million for the three months ended December 31, 2016, compared to net income of \$570 thousand for the comparable prior year quarter. For the nine months ended December 31, 2016, the Company reported a net loss of \$1.0 million, compared to net income of \$859 thousand for the prior year period. The changes in our results for both comparative periods were primarily driven by lower net interest income and non-interest income, partially offset by recoveries of loan losses in the current periods compared to provisions for loan losses in the prior year periods. Non-interest expense for the current three month period was \$137 thousand less than that for the comparable quarter last year. On a year-to-date basis, non-interest expense was \$970 thousand higher in the current period.

The following table reflects selected operating ratios for the three and nine months ended December 31, 2016 and 2015 (unaudited):



Edgar Filing: CARVER BANCORP INC - Form 10-Q

Selected Financial Data:	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015 Restated (a)	2016	2015 Restated (a)
Return on average assets <sup>(1)</sup>	(0.67 )%	0.30 %	(0.19 )%	0.16 %
Return on average stockholders' equity <sup>(2) (8)</sup>	(8.83 )%	4.25 %	(2.51 )%	2.12 %
Return on average stockholders' equity, excluding AOCI <sup>(2) (8)</sup>	(8.66 )%	4.13 %	(2.49 )%	2.06 %
Net interest margin <sup>(3)</sup>	2.85 %	3.25 %	2.97 %	3.25 %
Interest rate spread <sup>(4)</sup>	2.71 %	3.16 %	2.83 %	3.16 %
Efficiency ratio <sup>(5)</sup>	122.16 %	84.09 %	107.75 %	88.83 %
Operating expenses to average assets <sup>(6)</sup>	4.10 %	3.83 %	3.84 %	3.61 %
Average stockholders' equity to average assets <sup>(7) (8)</sup>	7.58 %	7.13 %	7.55 %	7.61 %
Average stockholders' equity, excluding AOCI, to average assets <sup>(7) (8)</sup>	7.72 %	7.34 %	7.61 %	7.81 %
Average interest-earning assets to average interest-bearing liabilities	1.19	x 1.15	x 1.19	x 1.16 x

(a) December 31, 2015 amounts have been restated from previously reported results to correct for a material and certain other errors from prior periods. Refer to Note 1 for further detail.

(1) Net income, annualized, divided by average total assets.

(2) Net income, annualized, divided by average total stockholders' 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 expense divided by sum of net interest income and non-interest income.

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

(7) Total average stockholders' equity divided by total average assets for the period.

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

#### Non-GAAP Financial Measures

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

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

Nine Months Ended

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	Three Months Ended		December 31,		
	December 31,		2016	2015	
	2016	2015	2016	2015	
Average Stockholders' Equity	\$52,387	\$53,691	\$53,105	\$54,133	
Average Stockholders' Equity	(978 )	(1,568 )	(416 )	(1,415 )	
Average AOCI					
Average Stockholders' Equity, excluding AOCI	\$53,365	\$55,259	\$53,521	\$55,548	
Return on Average Stockholders' Equity	(8.83 )%	4.25 %	(2.51 )%	2.12 %	
Return on Average Stockholders' Equity, excluding AOCI	(8.66 )%	4.13 %	(2.49 )%	2.06 %	
Average Stockholders' Equity to Average Assets	7.58 %	7.13 %	7.55 %	7.61 %	
Average Stockholders' Equity, excluding AOCI, to Average Assets	7.72 %	7.34 %	7.61 %	7.81 %	

38

---

## Analysis of Net Interest Income

The Company's profitability is primarily dependent upon net interest income and is also affected by the provision 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 \$1.0 million, or 17.4%, to \$4.8 million for the three months ended December 31, 2016, compared to \$5.8 million for the same quarter last year. Net interest income decreased \$1.2 million, or 7.5%, to \$15.4 million for the nine months ended December 31, 2016, compared to \$16.6 million for the prior year period.

The following tables set forth certain information relating to the Company's average interest-earning assets and average interest-bearing liabilities, and their related average yields and costs for the three and nine months ended December 31, 2016 and 2015. 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 and applicable. 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  
(Unaudited)

\$ in thousands	For the Three Months Ended December 31,							
	2016				2015			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
<b>Interest-Earning Assets:</b>								
Loans <sup>(1)</sup>	\$547,444	\$5,642	4.12 %		\$584,487	\$6,467	4.43 %	
Mortgage-backed securities	48,632	223	1.83 %		36,266	192	2.12 %	
Investment securities	12,705	76	2.39 %		39,050	221	2.26 %	
Restricted cash deposit	259	—	0.03 %		154	—	0.03 %	
Equity securities <sup>(2)</sup>	2,481	28	4.48 %		4,018	41	4.05 %	
Other investments and federal funds sold	65,984	135	0.81 %		54,545	88	0.64 %	
Total interest-earning assets	677,505	6,104	3.60 %		718,520	7,009	3.90 %	
Non-interest-earning assets	13,741				34,796			
Total assets	\$691,246				\$753,316			
<b>Interest-Bearing Liabilities:</b>								
<b>Deposits</b>								
Interest-bearing checking	\$34,108	\$14	0.16 %		\$31,635	\$13	0.16 %	
Savings and clubs	97,787	70	0.28 %		92,673	63	0.27 %	
Money market	144,528	221	0.61 %		166,178	212	0.51 %	
Certificates of deposit	243,504	652	1.06 %		240,631	546	0.90 %	
Mortgagors deposits	2,159	9	1.65 %		2,488	7	1.12 %	
Total deposits	522,086	966	0.73 %		533,605	841	0.63 %	
Borrowed money	47,392	316	2.65 %		93,655	330	1.40 %	
Total interest-bearing liabilities	569,478	1,282	0.89 %		627,260	1,171	0.74 %	
<b>Non-interest-bearing liabilities</b>								
Demand	57,037				56,867			
Other liabilities	12,344				15,498			
Total liabilities	638,859				699,625			
Stockholders' equity	52,387				53,691			
Total liabilities and equity	\$691,246				\$753,316			
Net interest income		\$4,822				\$5,838		
Average interest rate spread			2.71 %				3.16 %	
Net interest margin			2.85 %				3.25 %	

<sup>(1)</sup> Includes nonaccrual loans

<sup>(2)</sup> Includes FHLB-NY stock

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	For the Nine Months December 31,							
	2016		2015					
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
<b>Interest-Earning Assets:</b>								
Loans <sup>(1)</sup>	\$562,771	\$17,963	4.26 %		\$533,436	\$18,283	4.57 %	
Mortgage-backed securities	38,455	539	1.87 %		38,138	579	2.02 %	
Investment securities	18,546	330	2.37 %		47,472	725	2.04 %	
Restricted cash deposit	239	—	0.03 %		3,652	1	0.03 %	
Equity securities <sup>(2)</sup>	2,496	84	4.47 %		3,411	102	3.97 %	
Other investments and federal funds sold	67,203	378	0.75 %		54,931	257	0.62 %	
Total interest-earning assets	689,710	19,294	3.73 %		681,040	19,947	3.90 %	
Non-interest-earning assets	13,819				30,136			
Total assets	\$703,529				\$711,176			
<b>Interest-Bearing Liabilities:</b>								
<b>Deposits</b>								
Interest-bearing checking	\$33,563	\$41	0.16 %		\$31,829	\$39	0.16 %	
Savings and clubs	97,080	202	0.28 %		93,834	190	0.27 %	
Money market	148,093	679	0.61 %		158,822	602	0.50 %	
Certificates of deposit	250,082	1,878	1.00 %		223,963	1,550	0.92 %	
Mortgagors deposits	2,327	30	1.71 %		2,337	17	0.97 %	
Total deposits	531,145	2,830	0.71 %		510,785	2,398	0.62 %	
Borrowed money	50,439	1,094	2.88 %		78,557	924	1.56 %	
Total interest-bearing liabilities	581,584	3,924	0.90 %		589,342	3,322	0.75 %	
<b>Non-interest-bearing liabilities</b>								
Demand	55,753				53,273			
Other liabilities	13,087				14,428			
Total liabilities	650,424				657,043			
Stockholders' equity	53,105				54,133			
Total liabilities and equity	\$703,529				\$711,176			
Net interest income		\$15,370				\$16,625		
Average interest rate spread			2.83 %				3.16 %	
Net interest margin			2.97 %				3.25 %	

(1) Includes nonaccrual loans

(2) Includes FHLB-NY stock

**Interest Income**

Interest income decreased \$905 thousand, or 12.9%, to \$6.1 million for the three months ended December 31, 2016, compared to \$7.0 million for the prior year quarter. For the nine months ended December 31, 2016, interest income decreased \$653 thousand, or 3.3%, to \$19.3 million compared to \$19.9 million for the prior year period. Interest income on loans decreased in both periods, although for different reasons. For the comparable three month periods, the decline was due to lower average balances and yields in the current period of \$37.0 million and 0.31%, respectively. For the current nine month period, an increase



in average balances of \$29.3 million was not sufficient to offset a 31 basis point decline in yields. Although the average yield on investment securities increased 13 basis points and 33 basis points for the three month and nine months ended December 31, 2016, respectively, interest income on investment securities decreased due to a decrease in the average balances as a result of sales, calls and maturities of securities in the Bank's available-for-sale portfolio.

#### Interest Expense

Interest expense increased \$111 thousand, or 9.5%, to \$1.3 million for the three months ended December 31, 2016, compared to \$1.2 million for the prior year quarter. For the nine months ended December 31, 2016, interest expense increased \$602 thousand, or 18.1%, to \$3.9 million, compared to \$3.3 million for the prior year period. Interest expense on deposits for the three months ended December 31, 2016 was higher due to a 10 basis points increase in interest rates. Interest expense for the nine months ended December 31, 2016 was higher due primarily to increases in the average balances and rates on certificates of deposit compared to the prior year periods. Interest expense on borrowings for the three month periods declined by only \$14 thousand in the current quarter despite a decline of \$46.3 million in the average balance due to a 1.25% increase in the cost to borrow. Interest expense on borrowings for the nine months ended December 31, 2016 also included payment of \$183 thousand in additional interest on the deferred debenture dividends on the Company's outstanding Capital Statutory Trust I capital securities. The additional interest was related to the nineteen quarters of deferred payments that were settled and brought current in September 2016.

#### 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, including the identification and review of individual problem situations that may affect a borrower's ability to repay. 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. 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. 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.

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 OCC 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 Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

The following table summarizes the activity in the ALLL for the nine month periods ended December 31, 2016 and 2015 and the fiscal year-end March 31, 2016:

\$ in thousands	Nine Months Ended December 31, 2016	Fiscal Year Ended March 31, 2016	Nine Months Ended December 31, 2015
Beginning Balance	\$ 5,232	\$ 4,428	\$ 4,428
Less: Charge-offs	408	1,422	1,012
Add: Recoveries	288	731	353
Provision for (Recovery of) Loan Losses	(492 )	1,495	1,405
Ending Balance	\$ 4,620	\$ 5,232	\$ 5,174



Ratios:

Net charge-offs (recoveries) to average loans outstanding (annualized)	0.03	%	0.13	%	0.16	%
Allowance to total loans	0.87	%	0.89	%	0.86	%
Allowance to non-performing loans	54.37	%	37.51	%	50.99	%

The Company recorded a \$128 thousand recovery of loan loss for the three months ended December 31, 2016, compared to a \$728 thousand provision for loan loss for the prior year quarter. Net recoveries of \$1 thousand were recognized during the third quarter, compared to net recoveries of \$7 thousand for the prior year quarter. For the nine months ended December 31, 2016, the Company recorded a \$492 thousand recovery of loan loss, compared to a \$1.4 million provision for loan loss for the prior year period. Net charge-offs of \$120 thousand were recognized for the nine months ended December 31, 2016, compared to net charge-offs of \$659 thousand in the prior year period.

At December 31, 2016, nonaccrual loans totaled \$8.5 million, or 1.2% of total assets, compared to \$14.0 million, or 1.9% of total assets at March 31, 2016. Nonaccrual loans decreased \$5.5 million, or 39.1%, for the nine months ended December 31, 2016, primarily due to a payoff of a business loan with a carrying value of \$400 thousand and the transfer of one commercial real estate loan into the Bank's held-for-sale loan portfolio. The transferred loan, with a carrying value of \$3.4 million, was subsequently sold at par value on July 7, 2016. The ALLL was \$4.6 million at December 31, 2016, which represents a ratio of the ALLL to nonaccrual loans of 54.4% compared to a ratio of 37.5% at March 31, 2016. The ratio of the allowance for loan losses to total loans was 0.87% at December 31, 2016, compared to 0.89% at March 31, 2016. Non-performing loans have decreased 39.1% to \$8.5 million during the nine month period, primarily due to the sale of one commercial real estate loan from the Bank's held-for-sale portfolio.

#### Non-performing Assets

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

The Bank may from time to time agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). Loans modified in a TDR are placed on nonaccrual status until the Bank determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for a minimum of six months. At December 31, 2016, loans classified as TDR totaled \$7.6 million, of which \$6.0 million were classified as performing. At March 31, 2016, loans classified as TDR totaled \$7.8 million, of which \$5.6 million were classified as performing.

At December 31, 2016, non-performing assets totaled \$10.8 million, or 1.5% of total assets compared to \$17.5 million, or 2.4% of total assets at March 31, 2016.

The following table sets forth information with respect to the Bank's non-performing assets at the dates indicated:

## Non Performing Assets

\$ in thousands	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	
Loans accounted for on a nonaccrual basis <sup>(1)</sup> :						
Gross loans receivable:						
One-to-four family	\$3,466	\$3,211	\$3,060	\$2,947	\$2,997	
Multifamily	1,603	1,610	1,755	1,769	1,229	
Commercial real estate	1,004	1,015	2,221	5,338	3,427	
Business	2,421	2,725	2,469	3,896	2,494	
Total nonaccrual loans	8,497	8,561	9,505	13,950	10,147	
Other non-performing assets <sup>(2)</sup> :						
Real estate owned	1,166	1,311	1,100	1,008	960	
Loans held-for-sale	1,167	1,015	5,829	2,495	2,404	
Total other non-performing assets	2,333	2,326	6,929	3,503	3,364	
Total non-performing assets <sup>(3)</sup>	\$10,830	\$10,887	\$16,434	\$17,453	\$13,511	
Non-performing loans to total loans	1.59	% 1.62	% 1.69	% 2.37	% 1.69	%
Non-performing assets to total assets	1.55	% 1.55	% 2.36	% 2.35	% 1.79	%
Allowance to total loans	0.87	% 0.90	% 0.92	% 0.89	% 0.86	%
Allowance to non-performing loans	54.37	% 55.45	% 54.53	% 37.51	% 50.99	%

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

<sup>(2)</sup> 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).

<sup>(3)</sup> Troubled debt restructured loans performing in accordance with their modified terms for less than six months and those not performing in accordance with their modified terms are considered nonaccrual and are included in the nonaccrual category in the table above. At December 31, 2016, there were \$6.0 million TDR loans that have performed in accordance with their modified terms for a period of at least six months. These loans are generally considered performing loans and are not presented in the table above.

## Subprime Loans

In the past, the Bank originated or purchased a limited amount of subprime loans (which are defined by the Bank as those loans where the borrowers have FICO scores of 660 or less at origination). At December 31, 2016, the Bank had \$6.9 million in subprime loans, or 1.3% of its total loan portfolio, of which \$770 thousand are non-performing loans.

## Non-Interest Income

Non-interest income decreased \$1.8 million, or 64.6%, to \$1.0 million for the three months ended December 31, 2016, compared to \$2.7 million for the prior year quarter. For the nine months ended December 31, 2016, non-interest income decreased \$1.7 million, or 32.6%, to \$3.4 million compared to \$5.1 million for the prior year period. The decrease in both periods was primarily due to a \$1.2 million gain recognized in fiscal year 2016 on the sale and leaseback of one of the Bank's branch locations transacted as part of Carver's ongoing site rationalization efforts. The prior year three and nine month periods also included gains on sales of loans and real estate owned that in aggregate were \$451 thousand and \$663 thousand, respectively, larger compared to the current period.

## Non-Interest Expense

Non-interest expense decreased \$137 thousand, or 1.9%, to \$7.1 million for the three months ended December 31, 2016, compared to \$7.2 million for the prior year quarter. For the nine months ended December 31, 2016, non-interest expense increased \$970 thousand, or 5.0%, to \$20.2 million compared to \$19.3 million for the prior year period. Other non-interest expense for the current quarter included \$453 thousand related to adjustments necessary to reconcile a loan portfolio serviced by a third party. These adjustments were related to rate changes processed by the servicer to Carver client accounts that were not timely processed by the Bank on to its core provider system. The Bank also had higher employee compensation and benefits related to staffing costs associated with strengthening the Bank's regulatory and compliance infrastructure, and significant audit and legal expenses incurred as a result of the restatement of the Company's 2015 financial statements and the resultant going concern issue (since

eliminated). Partially offsetting the previous items was a decrease in net occupancy expense from both prior periods primarily related to the sale and leaseback transaction discussed above.

#### Income Tax Expense

For the three months ended December 31, 2016, there was no income tax expense compared to \$67 thousand for the prior year quarter. For the nine months ended December 31, 2016, income tax expense was \$37 thousand, compared to \$159 thousand for the prior year period.

#### Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable, as the Company is a smaller reporting company.

#### 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 December 31, 2016, the Company's management, including the Company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (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 amended. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on the foregoing evaluation, and in light of the identified material weaknesses disclosed in our Annual Report on Form 10-K for the year ended March 31, 2016 filed on August 12, 2016, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2016. The material weaknesses in internal control over financial reporting related to the accounting for specified credits in connection with the negotiation and execution of a contract with a service provider; the accuracy of a gain recognized and the collectability of a receivable recorded in connection with the sale of a loan; the presentation and disclosure of earnings-per-share in accordance with the two-class method; and the presentation of cash flows. In addition, a review during the quarter ended December 31, 2016 of the Company's internal control over the accounting for loans serviced by a third party showed that our reconciliation controls and procedures were not effective during the period. This resulted in the correction of an immaterial error disclosed in Note 1 to the consolidated financial statements (unaudited). Management identified and corrected the ineffective controls in the same period in which they were identified.

##### (b) Remediation Plan

The Company retained a new Chief Financial Officer in March 2016 to effectuate a plan to appropriately remediate these material weaknesses. A new Controller was retained subsequent to September 30, 2016 and additional staffing changes in the financial area are in process. The hiring, training and development, and retention of qualified, knowledgeable and experienced staff is a primary focus, but it does preclude the implementation of additional measures. As such, the CFO and the Controller are outlining new policies, procedures and guidelines for the financial area, as well as educational classes. In addition, the control environment throughout the Company is being reviewed

as it relates to financial reporting. Key controls are being validated and certification processes are being audited. The material weaknesses disclosed in the Company's Form 10-K have since been remediated. In addition, during the quarter ended December 31, 2016, a quality control specialist has been added to the loan operations department. Reconciliations between the Company general ledger and the servicer system reports were put into place immediately and, when coupled with the loan quality control specialist, remediated and cured the identified control deficiency.

(c) Changes in Internal Control over Financial Reporting

Other than the remediations discussed above, there have not been any changes in the Company's internal control over financial reporting 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.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, the Company and the Bank or one of its wholly owned subsidiaries are parties to various legal proceedings incident to their business. Certain claims, suits, complaints and investigations (collectively "proceedings") involving the Company and the Bank or a subsidiary, arising in the ordinary course of business, have been filed or are pending. The Company is unable at this time to determine the ultimate outcome of each proceeding, but believes, after discussions with legal counsel representing the Company and the Bank or the subsidiary in these proceedings, that it has meritorious defenses to each proceeding and appropriate measures have been taken to defend the interests of the Company, Bank or subsidiary. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank. Further, there have been no material developments or changes associated with any litigation matters previously reported by the Company or the Bank. In accordance with ASC Topic 450, Carver has accrued \$105,000 for these lawsuits.

### Item 1A. Risk Factors

The Company does not believe its risks have materially changed from those included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

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

- (a) No unregistered securities were sold by the Company during the quarter ended December 31, 2016.
- (b) Not applicable.
- (c) The Company did not repurchase any of its securities during the quarter ended December 31, 2016.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

### Item 6. Exhibits

The following exhibits are submitted with this report:

- 3.1 Certificate of  
Incorporation of  
Carver Bancorp, Inc.  
(1)
- 3.2 Certificate of  
Amendment to the  
Certificate of  
Incorporation of  
Carver Bancorp, Inc.  
(2)
- 3.3 Second Amended  
and Restated Bylaws  
of Carver Bancorp,  
Inc. (3)
- 4.1 Stock Certificate of  
Carver Bancorp,  
Inc. (1)
- 4.2 Certificate of  
Designations of  
Mandatorily  
Convertible  
Non-Voting  
Participating  
Preferred Stock,  
Series C, and  
Convertible  
Non-Cumulative  
Non-Voting  
Participating  
Preferred Stock,  
Series D (4)
- 4.3 Form of Stockholder  
Rights Agreement,  
dated June 29, 2011,  
by and between the  
Company and  
certain purchasers (4)
- 4.4 Exchange  
Agreement, dated  
June 29, 2011, by  
and between the  
Company and the  
United States  
Department of the  
Treasury (4)
- 10.1 Formal Agreement  
by and between  
Carver Federal  
Savings Bank and  
the Office of the



- Comptroller of the  
Currency <sup>(5)</sup>  
Statement Regarding
- 11 Computation of Per  
Share Earnings  
Certification of  
Chief Executive
- 31.1 Officer pursuant to  
Rule  
13a-14(a)/15d-14(a)  
Certification of  
Chief Financial
- 31.2 Officer pursuant to  
Rule  
13a-14(a)/15d-14(a)  
Certification of  
Chief Executive  
Officer furnished
- 32.1 pursuant to Section  
906 of the  
Sarbanes-Oxley Act  
of 2002, 18 U.S.C.  
1350  
Certification of  
Chief Financial  
Officer furnished
- 32.2 pursuant to Section  
906 of the  
Sarbanes-Oxley Act  
of 2002, 18 U.S.C.  
1350
- 101 The following  
materials from the  
Company's Quarterly  
Report on Form  
10-Q for the quarter  
ended December 31,  
2016, formatted in  
XBRL (Extensive  
Business Reporting  
Language): (i)  
Consolidated  
Statements of  
Financial Condition  
as of December 31,  
2016 (unaudited)  
and March 31, 2016;  
(ii) Consolidated  
Statements of  
Income for the three  
and nine months

ended December 31,  
2016 and 2015  
(unaudited); (iii)  
Consolidated  
Statements of  
Comprehensive  
Income (Loss) for  
the three and nine  
months ended  
December 31, 2016  
and 2015  
(unaudited); (iv)  
Consolidated  
Statements of  
Changes in Equity  
for the nine months  
ended December 31,  
2016 (unaudited);  
(v) Consolidated  
Statements of Cash  
Flows for the nine  
months ended  
December 31, 2016  
and 2015  
(unaudited); and (vi)  
Notes to  
Consolidated  
Financial  
Statements.

- Incorporated herein  
by reference from  
the Exhibits to the  
Form S-4,  
Registration  
(1) Statement and  
amendments thereto,  
initially filed on  
June 7, 1996,  
Registration No.  
333-5559.  
Incorporated herein  
by reference from  
the Exhibits to the  
Company's Current  
(2) Report on Form 8-K  
filed with the  
Securities and  
Exchange  
Commission on  
November 1, 2011.

- Incorporated herein  
by reference from  
the Exhibits to the  
(3) Company's Annual  
Report on Form  
10-K for the fiscal  
year ended March  
31, 2006.
- Incorporated by  
reference to the  
Exhibits to the  
(4) Company's Current  
Report on Form 8-K  
filed with the  
Securities and  
Exchange  
Commission on July  
6, 2011.
- Incorporated herein  
by reference to the  
Exhibits to the  
(5) Company's Current  
Report on Form 8-K  
filed with the  
Securities and  
Exchange  
Commission on May  
27, 2016.

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: February 17, 2017 /s/ Michael T. Pugh

Michael T. Pugh  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: February 17, 2017 /s/ Christina L. Maier

Christina L. Maier  
First Senior Vice President and Chief Financial Officer  
(Principal Accounting Officer and Principal Financial Officer)