

CARVER BANCORP INC
Form 10-K
June 29, 2012

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

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

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

For the fiscal year ended March 31, 2012

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

For the transition period from _____ to _____

Commission File Number: 1-13007

CARVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware 13-3904174
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)
Organization)

75 West 125th Street, New York, New York 10027
(Address of Principal Executive Offices) (Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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

As of March 31, 2012 there were 3,695,174 shares of common stock of the Registrant outstanding. The aggregate market value of the Registrant's common stock held by non-affiliates, as of September 30, 2011 (based on the closing sales price of \$6.15 per share of the registrant's common stock on September 30, 2011) was approximately \$22,725,320.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of registrant's proxy statement for the Annual Meeting of Stockholders for the fiscal year ended March 31, 2012 are incorporated by reference into Part III of this Form 10-K.

CARVER BANCORP, INC.
 2012 ANNUAL REPORT ON FORM 10-K
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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 which may be identified by the use of such words as “may,” “believe,” “expect,” “anticipate,” “should,” “plan,” “estimate,” “predict,” “continue,” and “potential” or the negative of these terms or other comparable 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 ability of the Bank and the Company to comply with regulatory orders that may be imposed upon the Bank and/or the Company and the Orders that have been imposed upon the Bank and the Company, and the effect on operations resulting from restrictions that may be set forth in the regulatory orders and that are set forth in the Orders. For additional information on the Orders refer to "Regulation and Supervision" on page 19;

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

general economic conditions, either nationally or locally, 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;

changes in our existing loan portfolio composition and credit quality or changes in loan loss requirements;

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 and Consumer Protection Act;

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;

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

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

technological changes 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 principles, policies or guidelines, which may cause changes to our financial reporting obligations;

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;

the ability to attract and retain key members of management;

the ability to realize cost efficiencies and

the ability to utilize the New Markets Tax Credits (“NMTC”).

Because forward-looking statements are subject to numerous assumptions, risks and uncertainties, actual results or future events could differ possibly materially from those that the company anticipated in its forward-looking statements. The forward-looking statements contained in this Annual Report on Form 10-K are made as of the date of this Annual Report on Form 10-K, and the Company assumes no obligation to, and expressly disclaims any obligation to, update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements, except as legally required. For a discussion of additional factors that could adversely affect the Company's future performance, see “Item 1A - Risk Factors” and “Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.”

PART I

ITEM 1. BUSINESS.

OVERVIEW

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

Carver Federal is the largest African-American operated bank in the United States. The Bank remains dedicated to expanding wealth enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank's "Outstanding" rating, awarded by the OCC following its most recent Community Reinvestment Act (“CRA”) examination in 2009. The examination report noted that 76.1% of Carver's community development lending and 55.4% of Carver's Home-Owners Mortgage Disclosure Act (“HMDA”) reportable loan originations were within low- to moderate-income geographies, which far exceeded peer institutions. The Bank had approximately \$641.2 million in assets as of March 31, 2012 and employed approximately 136 employees as of March 31, 2012.

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

The Bank's primary market area for deposits consists of the areas served by its nine branches in the Brooklyn, Manhattan and Queens boroughs of New York City. The neighborhoods in which the Bank's branches are located have historically been low- to moderate-income areas. The Bank's primary lending market includes Bronx, Kings, New York and Queens counties in New York City, and lower Westchester County, New York. Although the Bank's branches are primarily located in areas that were historically underserved by other financial institutions, the Bank faces significant competition for deposits and mortgage lending in its market areas. Management believes that this competition had become more intense as a result of increased examination emphasis by federal banking regulators on financial institutions' fulfillment of their responsibilities under the CRA and more recently due to the decline in demand for loans by qualified borrowers. Carver Federal's market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. The Bank's competition for loans comes principally from mortgage banking

companies, commercial banks, and savings institutions. The Bank's most direct competition for deposits comes from commercial banks, savings institutions and credit unions. Competition for deposits also comes from money market mutual funds, corporate and government securities funds, and financial intermediaries such as brokerage firms and insurance companies. Many of the Bank's competitors have substantially greater resources and offer a wider array of financial services and products. This combined with competitors' larger presence in the New York market add to the challenges the Bank faces in expanding its current market share and growing its near-term profitability.

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

The Bank formalized its many community-focused investments on August 18, 2005, by forming Carver Community Development Corporation ("CCDC"). CCDC oversees the Bank's participation in local economic development and other community-based initiatives, including financial literacy activities. CCDC coordinates the Bank's development of an innovative approach to reach the unbanked customer market in Carver Federal's communities. Importantly, CCDC spearheads the Bank's applications for grants and other resources to help fund these important community activities. In this connection, Carver Federal has successfully competed with large regional and global financial institutions in a number of competitions for government grants and other awards. In June 2006, Carver Federal was selected by the United States Department of Treasury ("US Treasury") to receive an award of \$59 million in New Markets Tax Credits, ("NMTC"). In May 2009, Carver Federal won another NMTC award in the amount of \$65 million and in August 2011, Carver Federal received a third NMTC award in the amount of \$25 million. The NMTC awards are used to stimulate economic development in low- to moderate-income communities. The NMTC awards enable the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating revitalization of the community, pursuant to the goals of the NMTC program. The NMTC awards provide a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. In addition to the tax credit awards recognized, the Company may transfer rights to an investor in a NMTC project and recognize a gain on the transfer of rights. The Company's ability to realize the benefit of the tax credits is dependent upon the Company generating sufficient taxable income. As of March 31, 2012, the 2006 and 2009 awards allocations have been fully utilized in qualifying projects. See item 7 below and the footnotes to the financial statements for additional details on the NMTC activities.

GENERAL

Carver Bancorp, Inc.

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

On October 24, 1994, Carver Federal converted from mutual to stock form and issued 2,314,275 shares of its common stock at a price of \$10 per share. On October 17, 1996, the Bank completed its reorganization into a holding company structure (the "Reorganization") and became a wholly-owned subsidiary of the Company.

On April 5, 2006, the Company acquired Community Capital Bank ("CCB"), a Brooklyn-based community bank, with approximately \$165.4 million in assets and two branches. The acquisition of CCB and its award-winning small business lending platform has expanded the Company's ability to capitalize on substantial growth in the small business market.

Equity Transactions. On October 25, 2011, the majority of 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 Series D preferred stock and common stock and exchange the U.S. Treasury 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 U.S. 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 is now reportable as stockholders equity.

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

Carver Federal Savings Bank

Carver Federal was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally-chartered mutual savings and loan association, at which time it obtained federal deposit insurance and became a member of the Federal Home Loan Bank of New York (the "FHLB-NY"). Carver Federal was founded as an African- and Caribbean-American operated institution to provide residents of underserved communities the ability to invest their savings and obtain credit. Carver Federal Savings and Loan Association converted to a federal savings bank in 1986 and changed its name at that time to

Carver Federal Savings Bank.

On March 8, 1995, Carver Federal formed CFSB Realty Corp. as a wholly-owned subsidiary to hold real estate acquired through foreclosure pending eventual disposition. At March 31, 2012, this subsidiary had \$2.8 million in total assets and a minimal net operating loss. During the fourth quarter of the fiscal year ended March 31, 2003, Carver Federal formed Carver Asset Corporation (“CAC”), a wholly-owned subsidiary which qualifies as a real estate investment trust (“REIT”) pursuant to the Internal Revenue Code of 1986, as amended. This subsidiary may, among other things, be utilized by Carver Federal to raise capital in the future. As of March 31, 2012, CAC owned mortgage loans carried at approximately \$66.1 million and total assets of \$131.9 million. On August 18, 2005, Carver Federal formed CCDC, a wholly-owned community development entity, to facilitate and develop innovative approaches to financial literacy, address the needs of the unbanked and participate in local economic development and other community-based activities. As part of its operations, CCDC monitors the portfolio of investments related to NMTC awards and makes application for additional awards.

Carver Statutory Trust I

The Trust was formed in 2003 for the purpose of issuing \$13.0 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 (“Capital Securities”) and \$0.4 million of common securities, which are wholly-owned by Carver Bancorp, Inc. and the sole voting securities of the trust. The Company may use the proceeds to acquire Junior Subordinated Debentures issued by the Company. The Company has fully and unconditionally guaranteed the Capital Securities along with all obligations of the Trust under the trust agreement relating to the Capital Securities. The Trust is not consolidated with the Company for financial reporting purposes in accordance with the Financial Accounting Standards Board's Accounting Standards Codification (“ASC”) regarding the consolidation of variable interest entities (formerly FIN 46(R)). Under the Company's regulatory orders, the Company is prohibited from paying dividends without prior OCC approval. Therefore, the Company has deferred the debenture interest payments. Prior to receiving the regulatory orders, the Company requested approval from the OCC to make a debenture interest payment and the request was denied.

Personnel

At fiscal year end 2012, the Company had 136 employees. None of the Bank's employees are a member of a collective bargaining agreement.

Available Information

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

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

Lending Activities

General. Carver Federal's loan portfolio consists primarily of mortgage loans originated by the Bank's lending teams and secured by commercial real estate, multi-family and one-to-four family residential property and construction loans. Substantially all of the Bank's mortgage loans are secured by properties located within the Bank's market area. From time-to time, the Bank may purchase loans that comply with the Bank's underwriting standards from other financial institutions or in contiguous

market geographies to achieve loan growth objectives. Under the Bank's regulatory orders, the Bank is required to improve its level of adversely classified assets, limited from certain concentrations on non-owner occupied commercial real estate ("CRE") loans and is restricted from the origination of construction loans.

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

During fiscal 2009, the Bank began to deemphasize the origination of new construction loans and in fiscal 2011 ceased the origination of new construction loans, allowing the outstanding balance of the construction loan portfolio to decline. As security for repayment, the Bank obtains a first lien position on the underlying collateral, and generally obtains personal guarantees. Construction loans also generally have a term of two years or less. Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns, changes in market conditions, risk of execution or other factors. The greater risk associated with construction loans has required the Bank to increase its provision for loan losses, and could require the Bank to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance the Bank currently maintains. To help mitigate risk, Carver Federal had originated construction loans principally through the Community Preservation Corporation ("CPC"). These loans were targeted toward affordable housing or rental dwelling units that tend to have lower risk profiles compared to other construction loans (discussed below). Despite limiting most construction lending to CPC, the Bank experienced a significant deterioration in this portfolio, principally driven by the current deep recession. In this connection, the ability of developers to sell their units was not only hampered by the direct impacts of the recession, such as high unemployment, but also by the significant increase in governmental agency requirements to provide homeowner financing.

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

Loan Portfolio Composition. Total loans receivable decreased by \$167.5 million, or 28.8%, to \$414.8 million at March 31, 2012 compared to \$582.3 million at March 31, 2011. Carver Federal's total loans receivable as a percentage of total assets decreased to 64.69% at March 31, 2012 compared to 82.10% at March 31, 2011. Non-residential real estate loans, which includes commercial real estate, totaled \$207.5 million, or 50.0% of total loans receivable; multi-family loans totaled \$78.9 million, or 19.0% of total loans receivable; one-to-four family mortgage loans totaled \$66.3 million, or 16.0% of total loans receivable; business loans totaled \$44.4 million, or 10.7% of total loans receivable; construction loans (net of committed but undisbursed funds), totaled \$16.5 million, or 4.0% of total loans receivable; and consumer loans (credit card loans, personal loans, and home improvement loans) totaled \$1.3 million or 0.3% of total loans receivable.

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

\$ in thousands	March 31, 2012		March 31, 2011		March 31, 2010		March 31, 2009		March 31, 2008	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Gross loans receivable:										
One- to four-family	\$66,313	16.0 %	\$82,061	14.1 %	\$90,150	13.4 %	\$105,771	15.9 %	\$127,186	19.4 %
Multifamily	78,859	19.0 %	123,791	21.3 %	141,702	21.1 %	80,321	12.1 %	78,657	12.0 %
Non-residential	207,505	50.0 %	243,786	41.9 %	259,619	38.6 %	273,595	41.3 %	238,508	36.3 %
Construction	16,471	4.0 %	78,055	13.4 %	111,348	16.6 %	144,318	21.8 %	158,877	24.2 %
Business	44,424	10.7 %	53,248	9.1 %	68,523	10.2 %	57,522	8.7 %	51,424	7.8 %
Consumer and other ⁽¹⁾	1,258	0.3 %	1,349	0.2 %	1,403	0.2 %	1,674	0.3 %	1,728	0.3 %
Total loans receivable	\$414,830	100 %	\$582,290	100 %	\$672,745	100 %	663,201	100 %	656,380	100 %
Add:										
Premium on loans 137			120		130		546		725	
Less:										
Deferred fees and loan discounts, net	(2,109)		(2,107)		(2,864)		(1,583)		(1,229)	
Allowance for loan losses	(19,821)		(23,147)		(12,000)		(7,049)		(4,878)	
Total loans receivable, net	\$393,037		\$557,156		\$658,011		\$655,115		\$650,998	

⁽¹⁾ Includes personal loans

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

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

At March 31, 2012, non-residential real estate mortgage loans totaled \$207.5 million, or 50.0% of the total loan portfolio. This balance reflects a year-over-year decrease of \$46.1 million, or 18.7%. Beginning in the fourth fiscal quarter 2011, as a result of asset quality issues and the regulatory orders, the Bank ceased originating non-owner occupied non-residential real estate loans. The Bank, however, modified certain existing residential loans where the Bank determined that modification was in the Bank's best interest. Commencing in the fourth fiscal quarter of 2012, the Bank, on a very limited basis, began originating non-owner occupied non-residential real estate loans that the Board, or a committee of the Board, determined were in the Bank's best interest and in accordance with prudent lending standards.

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

Historically, Carver Federal has been a New York City metropolitan area leader in the origination of loans to churches. At March 31, 2012, loans to churches totaled \$53.1 million, or 12.86% of the Bank's gross loan portfolio. These loans generally

have five-, seven-, or ten-year terms with 15-, 20- or 25-year amortization periods, a balloon payment due at the end of the term and generally have no greater than a 70% LTV ratio at origination. The Bank has also provided construction financing for churches and generally provides permanent financing upon completion of construction. There are currently 66 church loans in the Bank's loan portfolio.

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

Multi-family Real Estate Lending. Traditionally, Carver Federal originates and purchases multi-family loans. Multi-family property lending entails additional risks compared to one-to-four family residential lending. For example, such loans are dependent on the successful operation of such buildings and can be significantly impacted by supply and demand conditions in the market for multi-family residential units. Carver Federal's multi-family real estate loan portfolio decreased \$23.1 million in fiscal 2012, or 18.9% to \$78.9 million, or 19.0%, of Carver Federal's total loan portfolio at March 31, 2012. Beginning in the fourth fiscal quarter of 2011, as a result of asset quality issues and the Bank's regulatory orders, the Bank ceased originating multi-family real estate loans. The Bank, however, did modify certain existing residential loans where the Bank determined that modification was in the Bank's best interest.

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

To help ensure continued collateral protection and asset quality for the term of multi-family real estate loans, Carver Federal employs a risk-rating system for its loans. All commercial loans, including multi-family real estate loans, are risk-rated internally at the time of origination. Management continually monitors all commercial loans in order to update risk ratings when necessary (see Asset Classification and Allowance for Loan and Lease Losses for additional information on asset classification and risk ratings). In addition, to assist the Bank in evaluating changes in the credit profile of the borrower and the underlying collateral, an independent consulting firm reviews and prepares a written report for a sample of commercial loan relationships. On a quarterly basis, i) all new/renewed loans greater than

\$500,000, ii) a sampling of loans \$100,000 to \$999,999, and iii) all criticized and classified loans are reviewed. In addition, on an annual basis, all loans greater than \$500,000 and a sampling of loans \$100,000 to \$999,999 are reviewed. Summary reports documenting the loan reviews are then reviewed by management for changes in the credit profile of individual borrowers and the portfolio as a whole.

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

Construction financing generally is considered to involve a higher degree of risk of loss than long term financing on improved and occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the mortgaged property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in project delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value that is insufficient to assure full repayment of such loan. The ability of a developer to sell completed dwelling units will depend on, among other things, demand, pricing, availability of comparable properties and economic conditions. During fiscal 2010, the Bank sought to minimize this risk by limiting construction lending to experienced borrowers in the Bank's market areas, limiting the aggregate amount of outstanding construction loans and imposing a stricter LTV ratio requirement than that required for one-to-four family mortgage loans. Since fiscal 2011, the Bank has ceased new construction lending.

At March 31, 2012, the Bank had \$16.5 million (net of \$0.6 million of committed but undisbursed funds) in construction loans outstanding, comprising 4.0% of the Bank's gross loan portfolio. The balance at March 31, 2012 reflects a \$68.3 million, or 87.5%, decrease over fiscal 2011, consistent with the Bank's cessation of construction lending. Virtually all of the construction loans currently in Carver's loan portfolio comprise participations in loans originated by peer lenders in New York City. The preponderance of these loans, 81%, are underwritten and serviced by the Community Preservation Corporation ("CPC"), a nationally recognized non-profit corporation whose mission is to create affordable housing through new construction and renovation of existing buildings. CPC is sponsored by more than 70 commercial banks, savings institutions and insurance companies. Since its founding in 1974, CPC has been responsible for providing over \$7 billion in private and public capital to create approximately 140,000 affordable homes in low and moderate income communities, in New York City, New Jersey and Connecticut.

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

CPC-sponsored developments provide affordable homes for purchase or rental. Loans for rental developments, when complete, are generally sold to the New York City Pension Fund. Carver's portfolio of CPC loans consists of 7 loans in the amount of \$16.5 million, 43% are for rental developments and 57% are for sale. Most CPC homes are priced to target families at 120% of the median income in New York City, which is approximately \$78,300. This segment of the home buying market is very deep and typically resilient, given the expense of New York City living and the pent up demand of families living in public housing and other affordable rental housing to purchase their first home.

Since the recession in 2008, continued difficult economic conditions have severely tested this previously successful model. Delinquency in the CPC loan portfolio in which Carver participates has increased significantly. At March 31, 2012, the largest contributor to Carver's delinquencies was the CPC portfolio, representing 53% of total construction delinquencies and 11% of the non-performing portfolio. The delinquency rate for these loans is 34%.

The most significant factors leading to this delinquency was the federal government's decision in 2008 to remove Fannie Mae and Freddie Mac from the secondary market. As a result, loans for developments for which construction was complete could not be paid off because end loans, or mortgages for buyers, were non-existent. Second, the lengthy period in which developers managed the dearth of mortgage loans severely strained their finances, as they are

typically smaller, local developers. Third, the loss of employment in the New York metropolitan area reduced confidence and demand in the home buying population. The slow recovery in the home buying/consumer mortgage business has resulted in an extended time frame for developers to finalize sales and repay their construction loans.

Our strategy to manage this portfolio has been threefold. First, we ceased additional construction lending in fiscal 2011. During fiscal 2012, the construction loan portfolio has been reduced by \$68.3 million or 87.5%, through pay-offs and other resolutions. Second, we worked with CPC to develop an end loan product to provide mortgage financing for purchasers, if secondary market conditions do not rebound sufficiently. Third, we are aggressive participants, along with CPC, in the servicing of each loan.

To help ensure continued collateral protection and asset quality for the term of construction loans, Carver Federal employs a risk-rating system for its loans. All construction loans are risk-rated internally at the time of origination. Management continually

monitors all construction loans in order to update risk ratings when necessary (see Asset Classification and Allowance for Loan and Lease Losses for additional information on asset classification and risk ratings). In addition, to evaluate changes in the credit profile of the borrower and the underlying collateral, an independent consulting firm reviews and prepares a written report for a sample of construction loan relationships. On a quarterly basis, i) all new/renewed loans greater than \$1,000,000, ii) a sampling of loans \$100,000 to \$999,999, and iii) all criticized and classified loans are reviewed. In addition, on an annual basis, all loans greater than \$1,000,000 and a sampling of loans \$100,000 to \$999,999 are reviewed. Summary reports documenting the loan reviews are then reviewed by management for changes in the credit profile of individual borrowers and the portfolio as a whole.

One-to-four Family Residential Lending. Historically, Carver Federal emphasized the origination and purchase of first mortgage loans secured by one-to-four family properties that serve as the primary residence of the owner. To a much lesser degree, the Bank has made loans to investors that are secured by non-owner occupied one-to-four family properties. In the past the Bank has also purchased one-to-four family loans; however, no such loans were purchased in fiscal 2012 or fiscal 2011. In October 2008, the Bank entered into an arrangement with a third party to originate and underwrite one-to-four family loans for the Bank using Fannie Mae, Freddie Mac or FHA underwriting guidelines.

Carver Federal offers both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and the loan amount cannot exceed 10% of the 1-4 loan portfolio. Approximately 50.33% of the one-to-four family residential mortgage loans maturing in greater than one year at March 31, 2012 were adjustable rate and approximately 49.67% were fixed-rate. One- to four-family residential real estate loans decreased \$15.7 million to \$66.3 million, or 16.0%, of the gross loan portfolio at March 31, 2012 compared to March 31, 2011. During fiscal 2009 the Bank closed its residential one-to-four family lending department and elected to originate one-to-four residential loans through a third party private label origination operation. Loan origination volume is very low and most of the loans are sold servicing released. The Bank does not make the credit decision and therefore does not include these loans in its HMDA reporting.

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

Carver Federal's fixed-rate, one-to-four family residential mortgage loans are underwritten in accordance with applicable secondary market underwriting guidelines and requirements for sale. From time to time the Bank has sold such loans to Fannie Mae, the State of New York Mortgage Agency ("SONYMA") and other third parties. Loans are generally sold with limited recourse on a servicing retained basis except to SONYMA where the sale is made with servicing released. Carver Federal uses several servicing firms to sub-service mortgage loans, whether held in portfolio or sold with the servicing retained. At March 31, 2012, the Bank, through its sub-servicers, serviced \$39.2 million in loans for FNMA and \$5.2 million for other third parties.

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

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

In the past, the Bank originated or purchased a limited amount of subprime loans (which are defined as those loans which have FICO scores of 660 or less). At March 31, 2012, the Bank had \$5.7 million in subprime loans, or 1.38%, of its total loan portfolio of which \$3.7 million are non-performing loans.

Business Loans. Carver Federal's small business lending portfolio decreased by \$15.3 million to \$44.4 million, or 22.3%, of the Bank's gross loan portfolio in fiscal 2012. Carver Federal provides revolving credit and term loan facilities to small businesses with annual sales of approximately \$1 million to \$25 million in manufacturing, services and wholesale segments. Business loans are typically personally guaranteed by the owners, and may also be secured by additional collateral, including real estate, equipment and inventory. Included in commercial business loans are loans made to owners of New York City taxi medallions. These loans, which totaled \$2.5 million at March 31, 2012, are secured through first liens on the taxi medallions. Carver Federal originates taxi medallion loans in an amount up to 80% of the value of the taxi medallion.

Consumer and other Loans. At March 31, 2012, the Bank had \$1.3 million in consumer and other loans, or 0.3%, of the Bank's gross loan portfolio. At March 31, 2012, \$1.2 million, or 88.8%, of the Bank's consumer loans were unsecured loans, consisting of consumer loans, other than loans secured by savings deposits, and \$0.1 million or 11.2%, were secured by savings deposits.

Consumer loans are not typically secured by collateral and therefore involve more risk than first mortgage loans. Collection of a delinquent loan is dependent on the borrower's continuing financial stability and is more likely to be adversely affected by changes in employment, marital status, health and other personal financial factors. Further, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered. These loans may also give rise to claims and defenses by a borrower against Carver Federal, including claims and defenses that the borrower has against the seller of the underlying collateral. In underwriting unsecured consumer loans other than secured credit cards, Carver Federal considers the borrower's credit history, an analysis of the borrower's income, expenses and ability to repay the loan and the value of the collateral. The underwriting for secured credit cards only takes into consideration the value of the underlying collateral. See “-Asset Quality-Non-performing Assets.”

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

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

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

It is Carver Federal's policy to record a lien on the real estate securing the loan and to obtain a title insurance policy that insures that the property is free of prior encumbrances. Borrowers must also obtain hazard insurance policies prior

to closing and, when the property is in a flood plain as designated by the Department of Housing and Urban Development, obtain flood insurance. Most borrowers are also required to advance funds on a monthly basis, together with each payment of principal and interest, to a mortgage escrow account from which the Bank makes disbursements for items such as real estate taxes and hazard insurance. Written confirmation of the guarantee for SBA loans and evidence of the UCC filing is also required.

Loan Approval. Except for real estate and business loans in excess of \$6.0 million and \$3.0 million, respectively, mortgage and business loan approval authority has been delegated by the Bank's Board to the Board's Asset Liability and Interest Rate Risk Committee. The Asset Liability and Interest Rate Risk Committee has delegated to the Bank's Management Loan Committee, which consists of certain members of executive management, loan approval authority for loans up to and including \$3.0 million for real estate loans and \$1.0 million for all other business loans. Real estate and business loans above \$6.0 million and \$3.0 million, respectively, must be approved by the full Board. Purchased loans are subject to the same approval process as originated loans. One-to-four family mortgage loans that conform to FNMA, FHA and Federal Home Loan Mortgage Corporation (FHLMC), standards and limits may be approved by the outsourced third party loan originator. Under the Bank's Order, the Bank was restricted from originating new CRE loans without prior regulatory approval. On December 28, 2011 the OCC provided the Bank's Board, or a committee of the Board, authority to approve origination of CRE loans under certain conditions, which includes a certification

that the extension of credit is in the best interest of the Bank.

Loans-to-One-Borrower. Under the loans-to-one-borrower limits of the OCC, with certain limited exceptions, loans and extensions of credit to a single or related group of borrowers outstanding at one time generally may not exceed 15% of the unimpaired capital and surplus of a savings bank. See “Regulation and Supervision-Federal Banking Regulation-Loans-to-One-Borrower Limitations.” At March 31, 2012, the maximum loans-to-one-borrower under this test is \$13.1 million and the Bank had no relationships that exceeded this limit.

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

Loan Originations and Purchases. Loan originations, including loans originated for sale, were \$15.3 million in fiscal 2012 compared to \$28.6 million in fiscal 2011. In prior years, the Bank increased its loan production of non-residential commercial real estate and multi-family lending, including those in construction, to take advantage of higher yields and better interest rate risk characteristics. However, due to the downturn in the real estate market and the economy in general, the Bank has curtailed non-owner occupied commercial real estate and construction lending given the additional risks associated with these products. The Bank did not purchase any loans during fiscal 2012 and fiscal 2011 compared to \$10.8 million for fiscal 2010.

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

\$ in thousands	2012		2011		2010			
	Amount	Percent	Amount	Percent	Amount	Percent		
Loans Originated:								
One-to-four family	\$3,256	21.29	% \$3,129	10.96	% \$3,477	2.92	%	
Multi-family	642	4.20	% 700	2.45	% 18,678	15.67	%	
Non-residential	415	2.71	% 3,159	11.06	% 42,868	35.97	%	
Construction	—	—	% 4,902	17.16	% 13,752	11.54	%	
Business	10,936	71.52	% 16,318	57.13	% 29,368	24.64	%	
Consumer and others ⁽¹⁾	41	0.27	% 353	1.24	% 277	0.23	%	
Total loans originated	15,290	100.00	% 28,561	100.00	% 108,420	90.97	%	
Loans purchased ⁽²⁾	—	—	% —	—	% 10,760	9.03	%	
Total loans originated and purchased	15,290	100.00	% 28,561	100.00	% 119,180	100.00	%	
Loans sold ⁽³⁾	(35,307)		(3,335)		(3,370)			
Net (reductions) additions to loan portfolio	\$(20,017)		\$25,226		\$115,810			

⁽¹⁾ Comprised of personal loans.

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

⁽³⁾ Comprised of primarily of multifamily loans in the current period and one-to-four family mortgage loans in the prior periods.

Loans purchased by the Bank entail certain risks not necessarily associated with loans the Bank originates. The Bank's purchased loans are generally acquired without recourse, with certain exceptions related to the seller's compliance

with representations and warranties, and in accordance with the Bank's underwriting criteria for originations. In addition, purchased loans have a variety of terms, including maturities, interest rate caps and indices for adjustment of interest rates, that may differ from those offered at that time by the Bank. The Bank initially seeks to purchase loans in its market area, however, the Bank may purchase loans secured by property outside its market area to meet its financial objectives. The market areas in which the properties that secure the purchased loans are located may differ from Carver Federal's market area and may be subject to economic and real estate market conditions that may significantly differ from those experienced in Carver Federal's market area. There can be no assurance that economic conditions in these out-of-state markets will not deteriorate in the future, resulting in increased loan delinquencies and loan losses among the loans secured by property in these areas.

In an effort to reduce risks, the Bank has sought to ensure that purchased loans satisfy the Bank's underwriting standards and do not otherwise have a higher risk of collection or loss than loans originated by the Bank. A review of each loan is conducted

prior to purchase, and the Bank also requires appropriate documentation and further seeks to reduce its risk by requiring, in each buy/sell agreement, a series of warranties and representations as to the underwriting standards and the enforceability of the related legal documents. These warranties and representations remain in effect for the life of the loan. Any misrepresentation must be cured within 90 days of discovery or trigger certain repurchase provisions in the buy/sell agreement.

Loan Maturity Schedule. The following table sets forth information at March 31, 2012 regarding the amount of loans maturing in Carver Federal's portfolio, including scheduled repayments of principal, based on contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Construction loans generally have terms from 12 to 24 months and when coupled with the significant decline in originations over the past two years, the construction loan portfolio has a maturity of less than one year. The table below does not include any estimate of prepayments, which significantly shorten the average life of all mortgage loans and may cause Carver Federal's actual repayment experience to differ significantly from that shown below:

Loan Maturities \$ in thousands	<1 Yr.	1-5 Yrs.	5-20+ Yrs.	Total
Gross loans receivable:				
One-to-four family	\$ 169	\$63,968	\$2,176	\$66,313
Multi-family	7,864	36,200	34,795	78,859
Commercial	14,953	77,639	114,912	207,504
Construction	16,471	—	—	16,471
Business	12,103	6,014	26,308	44,425
Consumer	867	71	320	1,258
Total	\$52,427	\$183,892	\$178,511	\$414,830

The following table sets forth as of March 31, 2012, amounts in each loan category that are contractually due after March 31, 2013 and whether such loans have fixed or adjustable interest rates. Scheduled contractual principal repayments of loans do not necessarily reflect the actual lives of such assets. The average life of long term loans is substantially less than their contractual terms due to prepayments. In addition, due-on-sale clauses in mortgage loans generally give Carver Federal the right to declare a conventional loan due and payable in the event, among other things, that a borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan market rates are higher than rates on existing mortgage loans and tends to decrease when current mortgage loan market rates are lower than rates on existing mortgage loans:

\$ in thousands	Due After March 31, 2013		
	Fixed	Adjustable	Total
Gross loans receivable:			
One-to-four family	\$32,853	\$33,291	\$66,144
Multi-family	35,704	35,291	70,995
Non-residential	48,832	143,720	192,552
Construction	—	—	—
Business	19,867	12,454	32,321
Consumer	—	391	391
Total	\$137,256	\$225,147	\$362,403

Asset Quality

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

The underlying credit quality of the Bank's loan portfolio is dependent primarily on each borrower's ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the adequacy of the value of the

collateral securing the loan. For non-owner occupied non-residential real estate and multi-family real estate loans, the borrower's ability to pay typically is dependent on rental income, which can be impacted by vacancies and general market conditions. For one-to-four family loans, a borrower's ability to pay typically is dependent primarily on employment and other sources of income. For owner occupied non-residential real estate, a borrower's ability to pay typically is dependent primarily on the success of the borrower's business. For all of the Bank's loans, a borrower's ability to pay is also impacted by general economic and other factors, such as unanticipated expenditures or changes in the financial markets. Collateral values, particularly real estate values, are also impacted by a variety of factors, including general economic conditions, demographics, maintenance and collection or foreclosure delays.

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

The Bank may from time to time agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). Loans modified in a troubled debt restructuring are placed on non-accrual status until the Bank determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for a minimum of six months. At March 31, 2012, loans classified as a troubled debt restructuring totaled \$21.0 million.

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

\$ in thousands	2012	2011	2010	2009	2008	
(1) Loans accounted for on a non-accrual basis:						
Gross loans receivable:						
One-to-four family	\$6,988	\$15,993	\$7,682	\$4,396	\$567	
Multi-family	2,923	6,786	10,334	3,569	—	
Non-residential	24,467	10,078	6,315	11,375	522	
Construction	11,325	37,218	17,413	3,286	—	
Business	8,862	7,289	5,799	3,079	1,708	
Consumer	23	42	28	22	57	
Total non-performing loans	54,588	77,406	47,571	25,727	2,854	
(2) Other non-performing assets:						
Real estate owned	2,183	564	66	465	1,163	
Loans held for sale	29,626	9,205	—	21,105	23,767	
Total other non-performing assets	31,809	9,769	66	21,570	24,930	
(3) Total non-performing assets:	\$86,397	\$87,175	\$47,637	\$47,297	\$27,784	
(4) Accruing loans contractually past due > 90 days:	\$—	\$—	\$1,411	\$894	\$—	
Non-performing loans to total loans	13.22	% 13.34	% 7.10	% 4.01	% 0.43	%

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Non-performing assets to total assets 13.47 % 12.29 % 5.91 % 5.98 % 3.49 %

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

(2) Other non-performing assets generally represent loans that the Bank is in the process of selling and has designated held for

sale or property acquired by the Bank in settlement of loans less costs to sell (i.e., through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value.

Troubled debt restructured loans performing in accordance with their modified terms for less than six months and those not performing in accordance with their modified terms are considered non-accrual and are included in the (3) non-accrual category in the table above. TDR loans that have performed in accordance with their modified terms for a period of at least six months are generally considered performing loans and are not presented in the table above.

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

At March 31, 2012, total non-performing assets decreased by \$0.8 million to \$86.4 million, compared to \$87.2 million at March 31, 2011. Non-accrual loans consist of thirty-two one-to-four family loans, 5 multi-family loans, seventeen non-residential real estate loans, 5 construction loans, eleven consumer and twenty-eight small business and SBA loans. The increase in delinquent loans from the prior year is primarily the result of continued unfavorable economic conditions and resultant impact on borrower's ability to meet the terms of their loans. Management believes that there will likely be losses on certain delinquent loans, but that the amount of losses will be reduced by the values of the properties securing these delinquent loans and the Bank's loan loss reserves. Other non performing assets of \$31.8 million include a portfolio of loans held-for sale and real estate owned assets consisting of two properties foreclosed upon.

Although we believe that substantially all risk elements at March 31, 2012 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.

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

The OCC, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses and lease losses (ALLL). The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the ability to collect the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Management is responsible for determining the adequacy of the allowance for loan losses and the periodic provisioning for estimated losses included in the consolidated financial statements. The evaluation process is undertaken on a quarterly basis, but may increase in frequency should conditions arise that

would require management's prompt attention, such as business combinations and opportunities to dispose of non-performing and marginally performing loans by bulk sale or any development which may indicate an adverse trend. Although management believes that adequate specific and general loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may become necessary. Federal examiners may disagree with a savings institution as to the appropriate level of the institution's allowance for loan losses. While management believes Carver Federal has established its existing loss allowances in accordance with the ALLL policy, there can be no assurance that regulators, in reviewing Carver Federal's assets, will not require Carver Federal to increase its loss allowance, thereby negatively affecting Carver Federal's reported financial condition and results of operations. For additional information regarding Carver Federal's ALLL policy, refer to Note 2 of Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies."

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

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

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

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

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\$ in thousands	2012	2011	2010	2009	2008
Balance at beginning of year	\$23,147	\$12,000	\$7,049	\$4,878	\$5,409
Less Charge-offs:					
One-to-four family	3,730	827	580	—	22
Non-residential	17,322	12,226	1,648	—	—
Business	875	2,007	646	501	709
Consumer and other	8	959	84	83	174
Total Charge-offs	\$21,935	\$16,019	\$2,958	\$584	\$905
Add Recoveries:					
One-to-four family	469	6	12	—	—
Non-residential	1,685	2	—	—	—
Business	113	13	6	10	110
Consumer and other	—	31	46	43	42
Total Recoveries	\$2,267	\$52	\$64	\$53	\$152
Net loans charged-off	19,668	15,967	2,894	531	753
Provision for losses	16,342	27,114	7,845	2,702	222
Balance at end of year	\$19,821	\$23,147	\$12,000	\$7,049	\$4,878
Ratios:					