CARVER BANCORP INC
Form 10-Q
November 14, 2012

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

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

For the quarterly period ended September 30, 2012
OR

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

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

Common Stock, par value $0.01	3,695,320
Class	Outstanding at November 12, 2012

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PART I. FINANCIAL INFORMATION

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

$ in thousands except per share data	September 30, 2012 (unaudited)	March 31, 2012
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$82,179	$89,872
Money market investments	9,898	1,825
Total cash and cash equivalents	92,077	91,697
Restricted cash	6,415	6,415
Investment securities:		
Available-for-sale, at fair value	114,462	85,106
Held-to-maturity, at amortized cost (fair value of $10,737 and $11,774 at September 30, 2012 and March 31, 2012, respectively)	10,038	11,081
Total investments	124,500	96,187
Loans held-for-sale (“HFS”)	26,830	29,626
Loans receivable:		
Real estate mortgage loans	343,402	367,611
Commercial business loans	36,132	43,989
Consumer loans	416	1,258
Loans, net	379,950	412,858
Allowance for loan losses	(16,408)	(19,821)
Total loans receivable, net	363,542	393,037
Premises and equipment, net	9,084	9,573
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	3,008	2,168
Accrued interest receivable	2,438	2,256
Other assets	10,380	10,271
Total assets	$638,274	$641,230
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Deposits:		
Savings	$98,615	$101,079
Non-Interest Bearing Checking	59,344	67,202
NOW	24,977	28,325
Money Market	110,206	109,404
Certificates of Deposit	213,234	226,587
Total deposits	506,376	532,597
Advances from the FHLB-NY and other borrowed money	65,414	43,429
Other liabilities	11,304	8,585
Total liabilities	583,094	584,611
Stockholders’ equity:		
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
	61	61

Common stock (par value $0.01 per share: 10,000,000 shares authorized; 3,697,264 issued; 3,695,320 and 3,695,174 shares outstanding at September 30, 2012 and March 31, 2012, respectively)		
Additional paid-in capital	55,063	54,068
Accumulated deficit	(45,599)	(45,091)
Non-controlling interest	795	2,751
Treasury stock, at cost (1,944 shares at September 30, 2012 and 2,090 and March 31, 2012, respectively).	(417)	(447)
Accumulated other comprehensive income	159	159
Total stockholders' equity	55,180	56,619
Total liabilities and stockholders equity	$638,274	$641,230

See accompanying notes to consolidated financial statements

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

$ in thousands	Three Months Ended September 30, 2012	2011	Six Months Ended September 30, 2012	2011
Interest Income:				
Loans	$5,486	$6,958	$11,074	$13,660
Mortgage-backed securities	275	342	569	739
Investment securities	307	116	507	226
Money market investments	49	25	118	49
Total interest income	6,117	7,441	12,268	14,674
Interest expense:				
Deposits	906	937	1,882	1,943
Advances and other borrowed money	347	827	691	1,776
Total interest expense	1,253	1,764	2,573	3,719
Net interest income	4,864	5,677	9,695	10,955
Provision for loan losses	560	7,007	784	12,177
Net interest income after provision for loan losses	4,304	(1,330)	8,911	(1,222)
Non-interest income:				
Depository fees and charges	892	751	1,688	1,472
Loan fees and service charges	195	208	395	486
Loss on REO, net	—	(122)	(288)	(124)
Gain on sales of loans, net	569	135	604	134
New Market Tax Credit (“NMTC”) fees	625	—	625	—
Lower of cost or market adjustment on loans held for sale	—	(275)	—	(375)
Other	153	131	350	326
Total non-interest income	2,434	828	3,374	1,919
Non-interest expense:				
Employee compensation and benefits	2,704	3,137	5,424	6,182
Net occupancy expense	916	970	1,774	1,902
Equipment, net	609	537	1,091	1,079
Consulting fees	113	116	180	205
Federal deposit insurance premiums	331	355	674	809
Other	2,217	2,512	4,381	4,742
Total non-interest expense	6,890	7,627	13,524	14,919
Loss before income taxes	(152)	(8,129)	(1,239)	(14,222)
Income tax expense (benefit)	36	185	196	76
Net loss before attribution of noncontrolling interest	(188)	(8,314)	(1,435)	(14,298)
Non Controlling interest, net of taxes	(52)	1,136	(936)	1,282
Net loss	$(136)	$(9,450)	$(499)	$(15,580)
Other comprehensive (loss) income, net of tax:				
Change in unrealized gain/loss of securities available for sale	390	(146)	302	125
Change in pension obligations	—	(30)	(302)	(30)
Total other comprehensive income (loss), net of tax	390	(176)	—	95
Total comprehensive loss, net of tax	$254	$(9,626)	$(499)	$(15,485)
Loss per common share:				

Basic (*)	$(0.04)	$(58.67)	$(0.14)	$(95.68)

(*) Common stock shares for all periods presented reflects a 1 for 15 reverse stock split which was effective on October 27, 2011

See accompanying notes to consolidated financial statements

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the six months ended September 30, 2012
(Unaudited)

$ in thousands	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Non-controlling interest	Accumulated deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance—March 31, 2012	$45,118	$61	$ 54,068	$ (447)	$ 2,751	$ (45,091)	$ 159	$ 56,619
Net loss	—	—	—	—	—	(499)	—	(499)
Other comprehensive loss, net of taxes	—	—	—	—	—	—	—	—
Transfer between Non Controlling and Controlling Interest	—	—	1,020	—	(1,020)	—	—	—
Loss attributable to non controlling interest	—	—	—	—	(936)	—	—	(936)
Treasury stock activity	—	—	(25)	30	—	(9)	—	(4)
Balance— September 30, 2012	$45,118	$61	$ 55,063	$ (417)	$ 795	$ (45,599)	$ 159	$ 55,180

See accompanying notes to consolidated financial statements.

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

$ in thousands	Six Months Ended September 30, 2012	2011
OPERATING ACTIVITIES		
Net loss before attribution of noncontrolling interests	$(1,435)	$(14,298)
Noncontrolling interest	(936)	1,282
Net loss	(499)	(15,580)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	784	12,177
Stock based compensation expense	—	37
Depreciation and amortization expense	551	723
Amortization of intangibles	—	76
Loss on real estate owned	288	124
Gain on sale of loans, net	(604)	(135)
Market adjustment on held for sale loans	—	375
Proceeds from sale of loans held-for-sale	10,191	8,237
(Increase) decrease in accrued interest receivable	(182)	371
Decrease in loan premiums and discounts and deferred charges	(162)	(80)
Decrease in premiums and discounts — securities	574	221
(Decrease) increase in other assets	(269)	364
Increase in other liabilities	1,482	3,746
Net cash provided by operating activities	12,154	10,656
INVESTING ACTIVITIES		
Purchases of securities: Available-for-sale	(51,399)	(18,325)
Proceeds from principal payments, maturities, calls and sales of securities: Available-for-sale	21,795	14,355
Proceeds from principal payments, maturities, calls and sales of securities: Held-to-maturity	1,022	5,689
Originations of loans held-for-investment	(11,645)	(14,708)
Principal collections on loans	32,326	51,800
Proceeds on sale of loans	1,071	1,363
Increase in restricted cash	—	(6,275)
(Purchase)/redemption of FHLB-NY stock	(840)	509
Purchase of premises and equipment	(62)	(115)
Proceeds from sale of real estate owned	195	563
Net cash (used in) provided by investing activities	(7,537)	34,856
FINANCING ACTIVITIES		
Net decrease in deposits	(26,221)	(60,876)
Net change in FHLB-NY advances and other borrowings	21,984	(10,128)
Increase in capital	—	51,432
Net cash used in financing activities	(4,237)	(19,572)
Net (decrease) increase in cash and cash equivalents	380	25,940
Cash and cash equivalents at beginning of period	91,697	44,077
Cash and cash equivalents at end of period	$92,077	$70,017
Supplemental information:		
Noncash Transfers-		

Change in unrealized loss on valuation of available-for-sale investments, net	$180	$169
Transfers from loans held-for-investment to loans held-for-sale	$6,991	$38,776
Cash paid for-		
Interest	$2,348	$3,959
Income taxes	$29	$808

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 subsidiaries are Carver Federal Savings Bank (the "Bank" or "Carver Federal") and Alhambra Holding Corp, an inactive Delaware corporation. Carver Federal's wholly-owned subsidiaries are CFSB Realty Corp., Carver Community Development Corp. ("CCDC") and CFSB Credit Corp., which is currently inactive. The Bank has a majority owned interest in Carver Asset Corporation, a real estate investment trust formed in February 2004.
"Carver," the "Company," "we," "us" or "our" refers to the 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 2,314,275 shares of its common stock, par value $0.01 per share. On October 17, 1996, the Bank completed its reorganization into a holding company structure (the "Reorganization") and became a wholly-owned subsidiary of the Company.
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.
Carver Federal's principal business consists of attracting deposit accounts through its branches and investing those funds in mortgage loans and other investments permitted by federal savings banks. The Bank has nine branches located throughout the City of New York that primarily serve the communities in which they operate.
On February 10, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders ("Orders") with the Office of Thrift Supervision ("OTS"). The OTS issued these Orders based upon its findings that the Company was operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it was operating with an excessive level of adversely classified assets; and earnings inadequate to augment its capital. Effective July 21, 2011, supervisory authority for the Orders passed to the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency ("OCC"). No assurances can be given that the Bank and the Company will continue to comply with all provisions of the Orders. Failure to comply with these provisions could result in further regulatory actions to be taken by the regulators.
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 on June 30, 2011 to make a capital injection of $37 million in the Bank. 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 down-stream 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 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.

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, and CFSB Credit Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”). In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the March 31, 2012 Annual Report to Stockholders on Form 10-K. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, realization of deferred tax assets, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future write-downs of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

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

Investment Securities

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

Securities are classified as held-to-maturity and carried at amortized cost only if the Bank has a positive intent and ability to hold such securities to maturity. Securities held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using the level-yield method over the remaining period until maturity.
If not classified as held-to-maturity, securities are classified as available-for-sale based upon management's ability to sell in response to actual or anticipated changes in interest rates, resulting prepayment risk or any other factors. Available-for-sale securities are reported at fair value. Estimated fair values of securities are based on either published or security dealers' market value if available. If quoted or dealer prices are not available, fair value is estimated using quoted or dealer prices for similar securities.

Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in earnings.

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized holding loss. Unrealized holding gains or losses for securities available-for-sale are excluded from earnings and reported net of deferred income taxes in accumulated other comprehensive income (loss), a component of the Statement of Operations and Comprehensive Loss and a component of the Statement of Changes in Stockholders Equity. Following FASB guidance, the amount of an other-than-temporary impairment, when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more-likely-than-not that the entity 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. During fiscal 2013 and fiscal 2012, no impairment charges were recorded. Gains or losses on sales of securities of all classifications are recognized based on the specific identification method.

Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held-for-sale are based upon amounts offered, appraisals or other acceptable valuation methods and, in some instances, prior loan loss experience of Carver in connection with note sales since March 31, 2011.

Loans Receivable

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

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

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

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

Allowance for Loan and Lease Losses (“ALLL”)

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 Accounting Standards Codification (“ASC”) Topic 450 and ASC Topic 310. Compliance with the Interagency Policy Statement includes management's review of the Bank's loan portfolio, including the identification and review of situations that may affect a borrower's ability to repay. In addition, management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral, current charge-offs and other factors that may affect the portfolio, including a review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio are all taken into consideration.

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is a great amount of judgment applied to developing the ALLL. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio. Any change in circumstances considered by management to develop the ALLL could necessitate a change to the ALLL, including a change to the loan portfolio, such as a decline in credit quality or an increase in potential problem loans.

General Reserve Allowance

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

- 1-4 Family
- Construction
- Multifamily
- Commercial Real Estate

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- 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
- Loss

The Bank next applies to each pool a risk factor that determines the level of general reserves for that specific pool. The risk factors are comprised of actual losses for the most recent four quarters as a percentage of each respective Loan Type plus qualitative factors. As the loss experience for a Loan Type increases or decreases, the level of reserves required for that particular Loan Type also increases or decreases. Because actual loss experience may not adequately predict the level of losses 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-offs, 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 Topic 310 guidelines. The amount assigned to the specific reserve allowance is individually-determined based upon the loan. The ASC Topic 310 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 institution may choose the appropriate ASC Topic 310 measurement on a loan-by-loan basis for an individually impaired loan, except for an impaired collateral-dependent loan. Guidance requires impairment of a collateral-dependent loan to be measured using the fair value of collateral method. A loan is considered "collateral-dependent" when the repayment of the debt will be provided solely by the underlying collateral, and there are no other available and reliable sources of repayment.

Criticized and Classified loans with at risk balances of $500,000 or more and loans below $500,000 that the Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Topic 310, Accounting by Creditors for Impairment of a Loan. Carver also performs impairment analysis for all troubled debt restructurings (“TDRs”). If it is determined that it is probable the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, the loan is categorized as impaired.

If the loan is determined to be not impaired, it is then placed in the appropriate pool of Criticized & Classified loans to be evaluated for potential losses. Loans determined to be impaired are then evaluated to determine the measure of impairment amount based on one of the three measurement methods noted above. If it is determined that there is an impairment amount, the Bank then determines whether the impairment amount is permanent (that is a confirmed loss), in which case the 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
Troubled debt restructured loans (“TDR”) 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, 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 Company records an impairment charge equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the loan's original effective interest rate, and the loan's original carrying value. For a collateral dependent loan, the Company records an impairment when the current estimated fair value of the property that collateralizes the impaired loan, if any, is less than the recorded investment in the loan. TDR loans remain on non-accrual status until they have performed in accordance with the restructured terms for a period of at least 6 months.

NOTE 3. LOSS PER SHARE
The following table reconciles the earnings (loss) available to common shareholders (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted earnings (loss) per share for the following periods:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Loss per common share — basic				
Net loss	$(136)	$(9,450)	$(499)	$(15,580)
Less: Capital Purchase Program "CPP" Preferred Dividends	—	288	—	288
Net Loss Available to Common Shareholders	$(136)	$(9,738)	$(499)	$(15,868)
Weighted average common shares outstanding (1)	3,695,653	165,983	3,695,597	165,852
Loss per common share	$(0.04)	$(58.67)	$(0.14)	$(95.68)

(1) Common share count for all periods presented reflects a 1-for-15 reverse stock split which was effective on October 27, 2011.

NOTE 4. COMMON STOCK DIVIDENDS
As previously disclosed in a Form 8-K filed with the SEC on October 29, 2010, the Company’s Board of Directors announced that, based on highly uncertain economic conditions and the desire to preserve capital, Carver suspended payment of the quarterly cash dividend on its common stock. In accordance with the Orders, the Bank and Company are also prohibited from paying any dividends without prior regulatory approval, and, as such, suspended the regularly quarterly cash dividend payments on the Company's Series B preferred stock issued under the Trouble Asset Relief Program Capital Purchase Program (“TARP CPP”) to the United States Department of Treasury (“Treasury”). There are no assurances that the payments of dividends on the common stock will resume.
Debenture interest payments which had previously been deferred in March 2011 and June 2011 on the Carver Statutory Trust I (trust preferred securities (“TruPS”) were brought current in September 2011 before the regulators precluded future payments without prior approval. These payments remain on deferral status.
On October 18, 2011 Carver received approval from the Federal Reserve Bank to pay all outstanding dividend payments (which included $192 thousand accrued during the six month period ended September 30, 2011) on the Company's Series B preferred stock issued under the TARP CPP.

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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 Stockholder's equity. 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.

NOTE 5. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank’s asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC subtopic 320-942 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At September 30, 2012, the Bank had no securities classified as trading. At September 30, 2012, $114.5 million, or 91.9%, of the Bank’s mortgage-backed and other investment securities, were classified as available-for-sale. The remaining $10.0 million, or 8.1%, were classified as held-to-maturity.

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at September 30, 2012 :

$ in thousands	Amortized Cost	Gross Unrealized Gains	Losses	Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$25,217	$203	$(210)	$25,210
Federal Home Loan Mortgage Corporation	7,500	68	(31)	7,537
Federal National Mortgage Association	5,204	151	—	5,355
Small Business Association	1,962	34	—	1,996
Other	51	—	—	51
Total mortgage-backed securities	39,934	456	(241)	40,149
U.S. Government Agency Securities	43,128	153	(20)	43,261
U.S. Government Securities	3,102	3	—	3,105
Corporates Bonds	1,904	114	—	2,018
Asset-backed Securities	15,237	48	(21)	15,264
Other	10,485	180	—	10,665
Total available-for-sale	113,790	954	(282)	114,462
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	5,983	483	—	6,466
Federal Home Loan Mortgage Corporation	2,559	124	—	2,683
Federal National Mortgage Association	1,496	92	—	1,588
Total held-to-maturity mortgage-backed securities	10,038	699	—	10,737
Total securities	$123,828	$1,653	$(282)	$125,199

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2012:

$ in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$31,100	$269	$(23)	$31,346
Federal Home Loan Mortgage Corporation	7,468	8	(1)	7,475
Federal National Mortgage Association	7,214	50	(1)	7,263
Total mortgage-backed securities	45,782	327	(25)	46,084
U.S. Government Agency Securities	23,176	91	(63)	23,204
U.S. Government Securities	3,356	6	(1)	3,361
Corporate Bonds	1,890	58	—	1,948
Other	10,536	—	(27)	10,509
Total available-for-sale	84,740	482	(116)	85,106
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	6,659	473	—	7,132
Federal Home Loan Mortgage Corporation	2,794	134	—	2,928
Federal National Mortgage Association	1,628	86	—	1,714
Total held-to-maturity mortgage-backed securities	11,081	693	—	11,774
Total securities	$95,821	$1,175	$(116)	$96,880

The following table sets forth the unrealized losses and fair value of securities at September 30, 2012 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	$(188)	$17,123	$(53)	$3,986	$(241)	$21,109
Asset-backed securities	(21)	6,716	—	—	(21)	6,716
U.S. Government Agency Securities	(20)	11,044	—	—	(20)	11,044
U.S. Government Securities	—	1,552	—	—	—	1,552
Total available-for-sale securities	(229)	36,435	(53)	3,986	(282)	40,421

The following table sets forth the unrealized losses and fair value of securities at March 31, 2012 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	$(25)	$13,699	$—	$—	$(25)	$13,699
U.S. Government Agency Securities	(63)	9,917	—	—	(63)	9,917
U.S. Government Securities	(1)	1,555	—	—	(1)	1,555
Others	(27)	9,973	—	—	(27)	9,973
Total available-for-sale securities	(116)	35,144	—	—	(116)	35,144

A total of 13 securities had an unrealized loss at September 30, 2012 compared to 14 at March 31, 2012. The majority of the securities in an unrealized loss position were mortgage-backed securities, U.S. Government Agency securities, asset-backed securities and U.S. Treasury securities, representing 42.4%, 16.6%, 27.3% and 3.8% of total securities in an unrealized loss position that had an unrealized loss for less than 12 months at September 30, 2012. One security representing 9.9% of those securities in an unrealized loss position had an unrealized loss for more than 12 months at September 30, 2012.

Given the U.S. government's guarantees of the mortgage-backed and agency securities and U.S. Treasury Notes, there is no reason to believe that these securities will experience permanent impairment. Management believes that these unrealized losses are a direct result of the current rate environment and will recover as the economic conditions improve. On the two impaired asset-backed securities, the credit ratings from Moody's and Standard & Poor's were triple and double 'A' for the respective securities. Management believes that these securities impairments are due to interest rate cycles and will not be permanent.

For the quarter ended September 30, 2012, there was a Government National Mortgage Association security impaired for more than 12 months. Management believes that this security impairment is due to interest rate cycle and intends to keep the security in the portfolio for the foreseeable future. Given the Bank's ample liquidity, the bank also has the ability to hold this security in the portfolio.

Following FASB guidance, the amount of an other-than-temporary impairment, when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more-likely-than-not that the entity 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. At September 30, 2012, the Bank does not have any other securities that may be 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 September 30, 2012, 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:				
Less than one year	$3,103	$3,105	0.39	%
One through five years	9,898	10,074	1.53	%
Five through ten years	30,615	30,778	1.58	%
After ten years	70,174	70,505	1.46	%
Total	113,790	114,462	1.46	%
Held-to-maturity:				
Five through ten years	204	214	3.92	%
After ten years	9,834	10,523	4.09	%
Total	$10,038	$10,737	4.09	%

NOTE 6. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN AND LEASE LOSSES

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

The Allowance for Loan and Lease Losses (“ALLL”) reflects management’s judgment in the evaluation of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to calculate the ALLL each quarter. To determine the total ALLL, management estimates the reserves needed for each segment of the loan portfolio, including loans analyzed individually and loans analyzed on a pooled basis. For further details on the ALLL, please reference Note 2 "Summary of Significant Accounting Policies."

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

The following is a summary of loans receivable, net of allowance for loan losses, and loans held for sale at September 30, 2012 and March 31, 2012.

$ in thousands	September 30, 2012 Amount	Percent		March 31, 2012 Amount	Percent	
Gross loans receivable:						
One- to four-family	$62,166	16.28	%	$66,313	15.99	%
Multifamily	73,462	19.24	%	78,859	19.01	%
Commercial real estate	200,685	52.57	%	207,505	50.02	%
Construction	8,296	2.17	%	16,471	3.97	%
Business	36,731	9.62	%	44,424	10.71	%
Consumer and other [(1)]	416	0.11	%	1,258	0.30	%
Total loans receivable	381,756	100.00	%	414,830	100.00	%
Add:						
Premium on loans	146			137		
Less:						
Deferred fees and loan discounts	(1,952)			(2,109)		
Allowance for loan losses	(16,408)			(19,821)		
Total loans receivable, net	$363,542			$393,037		
Loans held-for-sale	$26,830			$29,626		

[(1)] Includes personal loans

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the six month period ended September 30, 2012.

$ in thousands	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$4,305	$ 5,409	$6,709	$1,532	$1,786	$80	$—	$19,821
Charge-offs:	1,633	225	1,148	—	1,198	2	—	4,206
Recoveries:	—	—	—	—	6	3	—	9
Provision for Loan Losses	2,037	(2,545)	(513)	(1,226)	3,020	(37)	48	784
Ending Balance	$4,709	$ 2,639	$5,048	$306	$3,614	$44	$48	$16,408
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	4,582	2,590	4,613	306	1,944	44	48	14,127
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	127	49	435	—	1,670	—	—	2,281

The following is an analysis of the loan receivable balances showing the methods of evaluating the loan portfolio for impairment for the six months period September 30, 2012.

Loan Receivables Ending Balance:	$61,948	$ 73,515	$199,641	$8,297	$36,097	$452	—	$379,950
	59,024	72,837	187,274	4,039	30,544	452	—	354,170

Ending Balance: collectively evaluated for impairment								
Ending Balance: individually evaluated for impairment	2,924	678	12,367	4,258	5,553	—	—	25,780

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The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the six month period ended September 30, 2011.

$ in thousands	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$2,923	$ 6,223	$3,999	$6,944	$2,965	$93	$—	$23,148
Charge-offs:	(728)	(4,081)	(3,572)	(5,205)	(398)	—	—	(13,984)
Recoveries:	—	—	2	1	86	—	—	89
Provision for Loan Losses	1,111	5,244	5,435	841	(726)	30	242	12,177
Ending Balance	$3,306	$ 7,386	$5,864	$2,581	$1,927	$123	242	$21,429

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment as of March 31, 2012.

$ in thousands	One-to-four family Residential	Multi-Family Mortgage	Commercial Real Estate	Construction	Business	Consumer and Other	Total
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	$4,098	$ 5,348	$6,177	$1,484	$1,685	$80	$18,872
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	207	61	532	48	101	—	949

The following is an analysis of the loan receivable balances showing the methods of evaluating the loan portfolio for impairment for the fiscal year ended March 31, 2012

Loan Receivables Ending Balance :	66,172	78,984	206,022	16,433	43,982	1,265	412,858
Ending Balance: collectively evaluated for impairment	63,866	77,976	185,249	10,346	38,124	1,265	376,826
Ending Balance: individually evaluated for impairment	2,306	1,008	20,773	6,087	5,858	—	36,032

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The following is a summary of non-performing loans at September 30, 2012, and March 31, 2012.

$ in thousands	September 30, 2012	March 31, 2012
Loans accounted for on a non-accrual basis:		
Gross loans receivable:		
One-to-four family	$6,094	$6,988
Multifamily	1,724	2,923
Commercial real estate	14,145	24,467
Construction	4,258	11,325
Business	8,717	8,862
Consumer	15	23
Total non-accrual loans	$34,953	$54,588

Non-performing loans decreased to $35.0 million at September 30, 2012 from $54.6 million at March 31, 2012. The majority of the decline during the current six month period ended September 30, 2012 related to 9 non-performing loans with a fair value of $7.2 million that were moved to held for sale, 6 TDR loans with a fair value of $1.8 million that were upgraded to performing as they had performed in accordance with their modified terms for six months and one construction loan with a fair value of $5 million that was paid off.

Non-performing loans at September 30, 2012, were comprised of $9.5 million of loans 90 days or more past due and non-accruing, $8.6 million of loans that are either performing or less than 90 days past due and have been deemed to be impaired and $16.9 million of loans classified as a troubled debt restructuring and either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months.

Non-performing loans at March 31, 2012, were comprised of $31.5 million of loans 90 days or more past due and non-accruing, $2.1 million of loans that are either performing or less than 90 days past due and have been deemed to be impaired and $21.0 million of loans classified as a troubled debt restructuring and either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months.

At September 30, 2012, other non-performing assets totaled $28.9 million which consists of other real estate owned and held-for-sale loans. Other real estate owned of $2.1 million reflects five foreclosed properties.

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

As of September 30, 2012, and based on the most recent analysis performed in the current quarter, the risk category by class of loans is as follows.

$ in thousands	Multi-Family Mortgage	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$67,300	$164,096	$4,039	$21,923
Special Mention	2,926	5,448	—	3,249
Substandard	3,289	30,097	4,258	10,925
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$73,515	$199,641	$8,297	$36,097

$ in thousands	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$55,854	$437
Non-Performing	6,094	15
Total	$61,948	$452

As of March 31, 2012, and based on the most recent analysis performed, the risk category by class of loans is as follows.

$ in thousands	Multi-Family Mortgage	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$74,900	$167,606	$201	$25,963
Special Mention	381	1,456	6,108	4,954
Substandard	3,703	36,959	10,124	12,551
Doubtful	—	—	—	514
Loss	—	—	—	—
Total	$78,984	$206,021	$16,433	$43,982

$ in thousands	One-to-four family Residential	Consumer and Other
Credit Risk Profile Based on Payment Activity:		
Performing	$59,185	$1,242
Non-Performing	6,987	23
Total	$66,172	$1,265

The following table presents an aging analysis of the recorded investment of past due financing receivable as of September 30, 2012.

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Impaired[1]	TDR [2]	Current	Total Financing Receivables
One-to-four family residential	$—	$589	$3,170	$3,759	$—	$2,924	$55,265	$61,948
Multi-family mortgage	—	162	1,046	1,208	—	678	71,629	73,515
Commercial real estate	4,224	1,560	1,778	7,562	3,618	8,749	179,712	199,641
Construction	—	—	—	—	4,258	—	4,040	8,298
Business	—	420	3,450	3,870	686	4,581	26,959	36,096
Consumer and other	18	22	15	55	—	—	397	452
Total	$4,242	$2,753	$9,459	$16,454	$8,562	$16,932	$338,002	$379,950

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

[2] Excludes $5.2 million TDR loans that have performed in accordance with their modified terms for at least six months and are considered performing. These loans are classified as current.

The following table presents an aging analysis of the recorded investment of past due financing receivable as of March 31, 2012. Also included are loans that are 90 days or more past due as to interest and principal and still accruing because they are well-secured and in the process of collection.

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Impaired [1]	TDR [2]	Current	Total Financing Receivables
One-to-four family residential	$2,381	$—	$4,681	$7,062	$—	$2,306	56,804	66,172
Multi-family mortgage	3,220	427	1,915	5,562	—	1,008	72,414	78,984
Commercial real estate	11,455	—	9,406	20,861	2,000	13,061	170,099	206,022
Construction	—	—	11,086	11,086	—	239	5,108	16,433
Business	3,937	954	4,353	9,244	81	4,428	30,229	43,982
Consumer and other	37	1	23	61	—	—	1,204	1,265
Total	$21,030	$1,382	$31,464	$53,876	$2,081	$21,042	$335,859	$412,858

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

[2] Excludes $3.5 million TDR loans that have performed in accordance with their modified terms for at least six months

and are considered performing. These loans are classified as current.

Management determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The following table presents information on impaired loans and non-performing TDR loans ($16.9 million) with the associated allowance amount, if applicable at September 30, 2012 and the interest income recognized for the periods ended September 30, 2012 and 2011 .

Impaired Loans by Class

	September 30, 2012					September 30, 2011	
$ in thousands	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Balance	Interest income recognized	Average Balance	Interest income recognized
With no specific allowance recorded:							
One-to-four family residential	$206	$1,080	$—	$467	$27	$2,173	$36
Multi-family mortgage	—	—	—	97	5	197	15
Commercial real estate	6,143	6,143	—	6,141	151	3,958	4
Construction	4,258	4,527	—	5,293	53	17,307	680
Business	936	936	—	2,536	41	2,435	106
Consumer and other	—	—	—	—		—	—
Total	$11,543	$12,686	$—	$14,534	$277	$26,070	$841
With an allowance recorded:							
One-to-four family residential	$2,718	$2,800	$127	$2,552	$28	$7,624	$61
Multi-family mortgage	678	871	49	742	—	8,010	70
Commercial real estate	6,225	6,772	435	8,182	115	8,622	99
Construction	—	—	—	—	—	4,497	—
Business	4,616	4,616	1,670	3,242	199	1,607	71
Consumer and other				—	——		—
Total	$14,237	$15,059	$2,281	$14,718	$342	$30,360	$301
Total impaired loans by type:							
One-to-four family residential	$2,924	$3,880	$127	$3,019	$55	$9,797	$97
Multi-family mortgage	678	871	49	839	5	8,207	85
Commercial real estate	12,368	12,915	435	14,323	266	12,580	103
Construction	4,258	4,527	—	5,293	53	21,804	680
Business	5,552	5,552	1,670	5,778	240	4,042	177
Consumer and other	—	—	—	—	—	—	—
Total	$25,780	$27,745	$2,281	$29,252	$619	$56,430	$1,142

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The following table presents information on impaired loans and non-performing TDR loans ($21.0 million) with the associated allowance amount, if applicable at March 31, 2012

Impaired Loans by Class
As of March 31, 2012

$ in thousands	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:			
One-to-four family residential	$628	$628	$—
Multi-family mortgage	194	194	—
Commercial real estate	6,304	6,304	—
Construction	5,406	5,670	—
Business	4,983	5,417	—
Consumer and other	—	—	—
Total	$17,515	$18,213	
With an allowance recorded:			
One-to-four family residential	$1,679	$1,760	$207
Multi-family mortgage	814	879	61
Commercial real estate	14,469	15,068	532
Construction	681	1,613	48
Business	1,089	1,776	101
Consumer and other	—	—	—
Total	$18,732	$21,096	$949
Total impaired loans by type:			
One-to-four family residential	$2,307	$2,388	$207
Multi-family mortgage	1,008	1,073	61
Commercial real estate	20,773	21,372	532
Construction	6,087	7,283	48
Business	6,072	7,193	101
Consumer and other	—	—	—
Total	$36,247	$39,309	$949

In certain circumstances, loan modifications involve a troubled borrower to whom the Bank may grant a modification. Situations around modifications involving troubled borrowers may include extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, reduction in the face amount of the debt or reduction of past accrued interest. In cases where the Bank grants any such concession to a troubled borrower, the Bank accounts for the modification as a TDR under ASC 310-40 and the related allowance under ASC 310-10-35. Loans modified in TDRs are placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months.

The following table presents an analysis of those loan modifications that were classified as non performing TDRs during the three and six month period ended September 30, 2012.

	Modifications to loans during the three month period ended September 30, 2012					Modifications to loans during the six month period ended September 30, 2012				
$ in thousands	Number of loans	Pre-modification outstanding recorded investment	Recorded investment	Pre-Modification rate	Post-Modification rate	Number of loans	Pre-modification outstanding recorded investment	Recorded investment	Pre-Modification rate	Post-Modification rate
One-to-four family residential	1	$ 875	$ —	8.13 %	8.13 %	2	1,415	540	6.55 %	6.07 %
Commercial real estate	1	$ 466	$ 466	12.02 %	12.02 %	1	466	466	12.02 %	12.02 %
Business	4	$ 2,242	$ 2,242	7.44 %	7.44 %	4	2,242	2,242	7.44 %	7.44 %
	6	$ 3,583	$ 2,708			7	4,123	3,248		

In an effort to proactively manage delinquent loans, Carver has selectively extended to certain borrowers concessions such as rate reductions or forbearance agreements. For the three month period ended September 30, 2012, no loans were modified with interest rate concessions. For the six month period ended September 30, 2012, one loan of $0.5 million was modified with an interest rate concession of 1.25%. There was one modification with an interest rate concession of 5.0% made to a $0.9 million loan during the three and six month period ended September 30, 2011.

For the period ended September 30, 2012, Carver had one commercial real estate loan with an outstanding balance of $2.4 million that had been modified and subsequently defaulted within the last twelve months.

TDR's are factored into the determination of the allowance for loan losses. The Company has allocated approximately $339 thousand of the loan loss allowance at September 30, 2012 for those TDRs modified within the last three months.

For the period ended September 30, 2012 there were eleven loans in the TDR portfolio totaling $5.2 million that were on accrual status as they had performed within their modified terms for a consecutive six month period.

At September 30, 2012 and 2011, there were no loans to officers or directors of the Company.

NOTE 7. INCOME TAXES

The components of income tax expense for the six months ended September 30, 2012 are as follows:

$ in thousands	September 30, 2012
Federal income tax expense (benefit):	
Current	$123
Deferred	(1,481)
Valuation Allowance	1,481
	123
State and local income tax expense (benefit):	
Current	73
Deferred	(56)
Valuation Allowance	56
	73
Total income tax expense:	$196

The following is a reconciliation of the expected Federal income tax rate to the consolidated effective tax rate for the six months ended September 30, 2012:

$ in thousands	September 30, 2012	
	Amount	Percent
Statutory Federal income tax	$(103)	34.0 %
State and local income taxes, net of Federal tax benefit	10	(3.4)%
General business credit	(16)	5.3 %
Valuation allowance	1,537	(506.3)%
Adjustment to DTA due to Section 382 limitation	(1,363)	449.1 %
Other	131	(43.1)%
Total income tax expense	$196	(64.2)%

On June 29, 2011, the Company raised $55 million of equity. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carry forwards, general business credits, and recognized built-in losses upon a change in ownership. The Company expects to be subject to an annual limitation of approximately $0.9 million. The Company has a net deferred tax asset ("DTA") of approximately $27.9 million. Based on management's calculations the Section 382 limitation has resulted in a reduction of the deferred tax asset of $4.7 million. A full valuation allowance for the remaining net deferred tax asset of $23.2 million has been recorded.

At September 30, 2012, the Company had net operating loss carryforwards for federal purposes of approximately $18.0 million, for state purposes of approximately $31.4 million and for city purposes of approximately $26.3 million, which are available to offset future federal, state and city income and which expire over varying periods from March 2028 through March 2032.

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

NOTE 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 September 30, 2012 and March 31, 2012, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

$ in thousands	Fair Value Measurements at September 30, 2012, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Mortgage servicing rights	$—	$—	$465	$465
Investment securities:				
Available for sale:				
U.S. Government Securities	3,105	—	—	3,105
Government National Mortgage Association	—	25,210	—	25,210
Federal Home Loan Mortgage Corporation	—	7,537	—	7,537
Federal National Mortgage Association	—	5,355	—	5,355
Asset-Backed Securities	—	15,264	—	15,264
Corporates	—	2,018	—	2,018
Other	—	55,922	51	55,973
Total available for sale securities	$3,105	$111,306	$51	$114,462
Total assets	$3,105	$111,306	$516	$114,927

$ in thousands	Fair Value Measurements at March 31, 2012, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	(in thousands)			
Assets:				
Mortgage servicing rights	$—	$—	$491	$491
Investment securities:				
Available for sale:				
U.S. Government Securities				