

CARVER BANCORP INC

Form 10-Q

February 14, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

OR

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

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

Commission File Number: 001-13007

CARVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

13-3904174

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

75 West 125th Street, New York, New York

10027

(Address of Principal Executive Offices)

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).  Yes  No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class Outstanding at February 13, 2019

Common Stock, par value \$0.01 3,698,864

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION (UNAUDITED)</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Financial Condition as of December 31, 2018 and March 31, 2018</u>	<u>1</u>
<u>Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2018 and 2017</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended December 31, 2018 and 2017</u>	<u>3</u>
<u>Consolidated Statement of Changes in Equity for the Nine Months Ended December 31, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2018 and 2017</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
<u>Item 4. Controls and Procedures</u>	<u>42</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>43</u>
<u>Item 1A. Risk Factors</u>	<u>43</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>43</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>43</u>
<u>Item 5. Other Information</u>	<u>43</u>
<u>Item 6. Exhibits</u>	<u>43</u>
<u>SIGNATURES</u>	<u>45</u>
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
Exhibit 101	



## PART I. FINANCIAL INFORMATION

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

	December 31, 2018	March 31, 2018
\$ in thousands except per share data		
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$39,564	\$134,299
Money market investments	509	259
Total cash and cash equivalents	40,073	134,558
Investment securities:		
Available-for-sale, at fair value	102,330	60,709
Held-to-maturity, at amortized cost (fair value of \$11,194 and \$11,909 at December 31, 2018 and March 31, 2018, respectively)	11,340	12,075
Equity securities	416	—
Total investment securities	114,086	72,784
Loans receivable:		
Real estate mortgage loans	323,833	370,261
Commercial business loans	99,118	102,203
Consumer loans	4,456	5,289
Loans, gross	427,407	477,753
Allowance for loan losses	(4,802)	(5,126)
Total loans receivable, net	422,605	472,627
Premises and equipment, net	5,252	2,970
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	566	1,768
Accrued interest receivable	2,068	2,023
Other assets	5,775	7,180
Total assets	\$590,425	\$693,910
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing checking	\$61,791	\$62,905
Interest-bearing deposits:		
Interest-bearing checking	27,723	23,570
Savings	99,267	102,550
Money market	93,853	101,990
Certificates of deposit	229,095	293,513
Escrow	1,288	2,355
Total interest-bearing deposits	451,226	523,978
Total deposits	513,017	586,883
Advances from the FHLB-NY and other borrowed money	13,403	38,403
Other liabilities	16,110	16,653
Total liabilities	542,530	641,939
<b>EQUITY</b>		

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Preferred stock, (par value \$0.01 per share: 45,118 Series D shares, with a liquidation preference of \$1,000 per share, issued and outstanding)	45,118	45,118
Common stock (par value \$0.01 per share: 10,000,000 shares authorized; 3,700,608 and 3,698,031 shares issued; 3,698,864 and 3,697,914 shares outstanding at December 31, 2018 and March 31, 2018, respectively)	61	61
Additional paid-in capital	55,513	55,479
Accumulated deficit	(50,661 )	(45,544 )
Treasury stock, at cost (1,944 shares)	(417 )	(417 )
Accumulated other comprehensive loss	(1,719 )	(2,726 )
Total equity	47,895	51,971
Total liabilities and equity	\$ 590,425	\$ 693,910
See accompanying notes to consolidated financial statements		

1

---

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
\$ in thousands, except per share data				
Interest income:				
Loans	\$4,640	\$5,471	\$14,757	\$16,920
Mortgage-backed securities	386	238	897	733
Investment securities	326	163	915	477
Money market investments	214	181	1,037	433
Total interest income	5,566	6,053	17,606	18,563
Interest expense:				
Deposits	1,263	1,073	4,013	2,961
Advances and other borrowed money	207	291	683	873
Total interest expense	1,470	1,364	4,696	3,834
Net interest income	4,096	4,689	12,910	14,729
(Recovery of) provision for loan losses	(332)	) 6	(278)	) 130
Net interest income after (recovery of) provision for loan losses	4,428	4,683	13,188	14,599
Non-interest income:				
Depository fees and charges	862	817	2,549	2,563
Loan fees and service charges	114	172	256	414
Gain (loss) on sale of loans, net	—	—	(23)	) —
Gain on sale of building, net	154	18	462	52
Other	197	339	466	665
Total non-interest income	1,327	1,346	3,710	3,694
Non-interest expense:				
Employee compensation and benefits	3,003	3,204	9,283	9,335
Net occupancy expense	902	856	3,188	2,555
Equipment, net	323	242	882	626
Data processing	457	385	1,294	1,203
Consulting fees	102	186	211	620
Federal deposit insurance premiums	170	163	666	460
Wire fraud loss	453	—	453	—
Other	1,660	1,906	5,217	5,582
Total non-interest expense	7,070	6,942	21,194	20,381
Loss before income taxes	(1,315)	) (913)	(4,296)	) (2,088)
Income tax expense	34	31	100	91
Net loss	\$(1,349)	\$(944)	\$(4,396)	\$(2,179)
Net loss per common share:				
Basic	\$(0.36)	\$(0.26)	\$(1.19)	\$(0.59)
Diluted	(0.36)	(0.26)	(1.19)	(0.59)

See accompanying notes to consolidated financial statements

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

	Three Months		Nine Months	
	Ended December		Ended December	
	31,	31,	31,	31,
\$ in thousands	2018	2017	2018	2017
Net loss	\$(1,349)	\$(944)	\$(4,396)	\$(2,179)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) of securities available-for-sale, net of income tax expense of \$0	972	(305)	286	203
Total comprehensive loss, net of tax	\$(377)	\$(1,249)	\$(4,110)	\$(1,976)

See accompanying notes to consolidated financial statements



CARVER BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
For the Nine Months Ended December 31, 2018 and 2017  
(Unaudited)

\$ in thousands	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance — March 31, 2018	\$45,118	\$ 61	\$ 55,479	\$ (45,544 )	\$ (417 )	\$ (2,726 )	\$51,971
Net loss	—	—	—	(4,396 )	—	—	(4,396 )
Other comprehensive income, net of taxes	—	—	—	—	—	286	286
AOCI reclassification (adoption of ASU 2016-01)	—	—	—	(721 )	—	721	—
Stock based compensation expense	—	—	34	—	—	—	34
Balance — December 31, 2018	\$45,118	\$ 61	\$ 55,513	\$ (50,661 )	\$ (417 )	\$ (1,719 )	\$47,895
Balance — March 31, 2017	\$45,118	\$ 61	\$ 55,474	\$ (50,898 )	\$ (417 )	\$ (1,940 )	\$47,398
Net loss	—	—	—	(2,179 )	—	—	(2,179 )
Other comprehensive income, net of taxes	—	—	—	—	—	203	203
Stock based compensation expense	—	—	3	—	—	—	3
Balance — December 31, 2017	\$45,118	\$ 61	\$ 55,477	\$ (53,077 )	\$ (417 )	\$ (1,737 )	\$45,425

See accompanying notes to consolidated financial statements

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

	Nine Months Ended December 31,	
\$ in thousands	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(4,396 )	\$(2,179 )
Adjustments to reconcile net loss to net cash used in operating activities:		
(Recovery of) provision for loan losses	(278 )	130
Stock based compensation expense	34	3
Depreciation and amortization expense	579	602
Gain on sale of real estate owned, net of market value adjustment	(208 )	(250 )
Loss on redemption of equity securities, net	27	—
Loss on sale of loans, net	23	—
Gain on sale of building	(462 )	(52 )
Amortization and accretion of loan premiums and discounts and deferred charges	375	171
Amortization and accretion of premiums and discounts — securities	355	255
Increase in accrued interest receivable	(45 )	(145 )
Decrease (increase) in other assets	1,049	(4,739 )
Decrease in other liabilities	(541 )	(473 )
Net cash used in operating activities	(3,488 )	(6,677 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments: Available-for-sale	(58,220 )	—
Proceeds from principal payments, maturities and calls of investments: Available-for-sale	6,847	3,916
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	704	998
Proceeds from redemption of equity securities	9,199	—
Originations of loans held-for-investment, net of repayments	49,545	46,768
Proceeds on sale of loans	232	1,986
Decrease in restricted cash	—	283
Redemption of FHLB-NY stock, net	1,202	403
Purchase of premises and equipment	(2,861 )	(1,145 )
Proceeds from sales of real estate owned	1,221	878
Net cash provided by investing activities	7,869	54,087
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net decrease in deposits	(73,866 )	(18,455 )
Repayment of FHLB-NY advances and other borrowings	(25,000 )	(11,000 )
Net cash used in financing activities	(98,866 )	(29,455 )
Net (decrease) increase in cash and cash equivalents	(94,485 )	17,955
Cash and cash equivalents at beginning of period	134,558	58,686
Cash and cash equivalents at end of period	\$40,073	\$76,641
<b>Supplemental cash flow information:</b>		
Noncash financing and investing activities		
Transfers (from) to held-for-sale loans (to) from portfolio loans	\$—	\$(944 )
Transfers to real estate owned	\$142	\$867

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Cash paid for:

Interest

\$3,983 \$3,305

Income taxes

\$77 \$225

See accompanying notes to consolidated financial statements

5

---

CARVER BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Nature of operations

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

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

Carver Federal’s principal business consists of attracting deposit accounts through its branches and investing those funds in mortgage loans and other investments permitted by federal savings banks. The Bank has eight branches located throughout the City of New York that primarily serve the communities in which they operate.

In September 2003, the Company formed Carver Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures of the Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidations,” Carver Statutory Trust I is unconsolidated for financial reporting purposes. On September 17, 2003, Carver Statutory Trust I issued 13,000 shares, liquidation amount \$1,000 per share, of floating rate capital securities. Gross proceeds from the sale of these trust preferred debt securities of \$13 million, and proceeds from the sale of the trust's common securities of \$0.4 million, were used to purchase approximately \$13.4 million aggregate principal amount of the Company's floating rate junior subordinated debt securities due 2033. The trust preferred debt securities are redeemable at par quarterly at the option of the Company beginning on or after September 17, 2008, and have a mandatory redemption date of September 17, 2033. Cash distributions on the trust preferred debt securities are cumulative and payable at a floating rate per annum resetting quarterly with a margin of 3.05% over the three-month LIBOR. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through September 2016. Such payments were made in September 2016. Interest on the debentures has been deferred beginning with the December 2016 payment, per the terms of the agreement, which permit such deferral for up to twenty consecutive quarters, as the Company is prohibited from making payments without prior regulatory approval. The interest rate was 5.84% and the total amount of deferred interest was \$1.5 million at December 31, 2018.

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

dividend payments to Carver will resume.

#### Regulation

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

On May 24, 2016, the Bank entered into a Formal Agreement with the OCC to undertake certain compliance-related and other actions as further described in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on May 27, 2016. As a result of the Formal Agreement ("the Agreement"), the Bank must obtain the approval

of the OCC prior to effecting any change in its directors or senior executive officers. The Bank may not declare or pay dividends or make any other capital distributions, including to the Company, without first filing an application with the OCC and receiving the prior approval of the OCC. Furthermore, the Bank must seek the OCC's written approval and the FDIC's written concurrence before entering into any "golden parachute payments" as that term is defined under 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359.

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended December 31, 2018 are not necessarily indicative of the results that may be expected for the year ended March 31, 2019. The consolidated balance sheet at December 31, 2018 has been derived from the unaudited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended March 31, 2018. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, realization of deferred tax assets, assessment of other-than-temporary impairment of securities, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future writedowns of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

Certain comparative amounts for the prior period have been reclassified to conform to current period presentations. Such reclassifications had no effect on net income or shareholders' equity.

## NOTE 3. LOSS PER COMMON SHARE

The following table reconciles the net loss (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted loss per share for the following periods:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
\$ in thousands except per share data				
Net loss	\$(1,349)	\$(944 )	(4,396 )	(2,179 )
Weighted average common shares outstanding - basic	3,698,701	3,698,020	3,698,423	3,697,753
Weighted average common shares outstanding – diluted	3,698,701	3,698,020	3,698,423	3,697,753

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Basic loss per common share	\$ (0.36 )	\$ (0.26 )	\$ (1.19)	\$ (0.59 )
Diluted loss per common share	\$ (0.36 )	\$ (0.26 )	\$ (1.19)	\$ (0.59 )

For the three and nine months ended December 31, 2018 and 2017, all MRP shares and outstanding stock options were anti-dilutive.

7

---

## NOTE 4. COMMON STOCK DIVIDENDS

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

## NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth changes in each component of accumulated other comprehensive income (loss), net of tax for the nine months ended December 31, 2018 and 2017:

\$ in thousands	At March 31, 2018	ASU 2016-01 reclassification	Other Comprehensive Income, net of tax	At December 31, 2018
Net unrealized loss on securities available-for-sale	\$(2,726)	\$ 721	\$ 286	\$(1,719 )

\$ in thousands	At March 31, 2017	Other Comprehensive Income, net of tax	At December 31, 2017
Net unrealized loss on securities available-for-sale	\$(1,940)	\$ 203	\$(1,737 )

There were no reclassifications out of accumulated other comprehensive loss to the consolidated statement of operations for the nine months ended December 31, 2018 and 2017.

## NOTE 6. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. GAAP requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At December 31, 2018, \$102.3 million, or 89.7%, of the Bank's total securities were classified as available-for-sale, \$11.3 million, or 9.9%, were classified as held-to-maturity and \$416 thousand, or 0.4%, were classified as equity securities. The Bank had no securities classified as trading at December 31, 2018 and March 31, 2018.

Equity securities primarily consist of the Bank's investment in a Community Reinvestment Act ("CRA") mutual fund and other equity investments. As a result of the adoption of ASU 2016-01 in April 2018, the Company determined that these investments fall under the provisions of ASU 2016-01, and accordingly, were transferred from available-for-sale and reclassified into equity securities on the Statement of Financial Condition. These securities are measured at fair value with unrealized holding gains and losses reflected in net income. Effective April 1, 2018, the Company recorded a cumulative effect adjustment of \$721 thousand as a reclassification from accumulated other comprehensive loss to retained earnings. Additionally, all future changes in fair value will be recognized in the Statements of Operations.





Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following tables set forth the amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2018 and March 31, 2018:

\$ in thousands	At December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	\$4,583	\$8	\$130	\$4,461
Federal Home Loan Mortgage Corporation	15,527	82	231	15,378
Federal National Mortgage Association	27,701	78	963	26,816
Total mortgage-backed securities	47,811	168	1,324	46,655
U.S. Government Agency Securities	34,801	—	322	34,479
U.S. Treasury Securities	16,377	—	37	16,340
Corporate Bonds	5,060	—	204	4,856
Total available-for-sale	\$104,049	\$168	\$1,887	\$102,330
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	\$1,250	\$33	\$—	\$1,283
Federal National Mortgage Association and Other	9,090	—	202	8,888
Total held-to-maturity mortgage-backed securities	10,340	33	202	10,171
Corporate Bonds	1,000	23	—	1,023
Total held-to maturity	\$11,340	\$56	\$202	\$11,194

\$ in thousands	At March 31, 2018			
	Amortized Cost	Gross Unrealized Gain	Unrealized Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	\$2,163	\$—	\$97	\$2,066
Federal Home Loan Mortgage Corporation	6,633	—	283	6,350
Federal National Mortgage Association	24,638	—	1,227	23,411
Total mortgage-backed securities	33,434	—	1,607	31,827
U.S. Government Agency Securities	14,490	—	258	14,232
Corporate Bonds	5,078	—	212	4,866
Other investments <sup>(1)</sup>	10,433	—	649	9,784
Total available-for-sale	\$63,435	\$—	\$2,726	\$60,709
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	\$1,434	\$51	\$—	\$1,485
Federal National Mortgage Association and Other	9,641	—	247	9,394
Total held-to-maturity mortgage-backed securities	11,075	51	247	10,879
Corporate Bonds	1,000	30	—	1,030
Total held-to-maturity	\$12,075	\$81	\$247	\$11,909

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

<sup>(1)</sup> Primarily comprised of an investment in a CRA fund with 95% of its underlying investments consisting of government and agency-backed securities.

There were no sales of available-for-sale and held-to-maturity securities for the three and nine months ended December 31, 2018 and 2017.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following tables set forth the unrealized losses and fair value of securities in an unrealized loss position at December 31, 2018 and March 31, 2018 for less than 12 months and 12 months or longer:

\$ in thousands	At December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>Available-for-Sale:</b>						
Mortgage-backed securities	\$—	\$—	\$1,324	\$27,011	\$1,324	\$27,011
U.S. Government Agency securities	160	28,368	162	6,111	322	34,479
U.S. Treasury securities	37	16,340	—	—	37	16,340
Corporate Bonds	—	—	204	4,856	204	4,856
Total available-for-sale securities	\$197	\$44,708	\$1,690	\$37,978	\$1,887	\$82,686
<b>Held-to-Maturity:</b>						
Mortgage-backed securities	\$—	\$—	\$202	\$8,802	\$202	\$8,802
Total held-to-maturity securities	\$—	\$—	\$202	\$8,802	\$202	\$8,802

\$ in thousands	At March 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>Available-for-Sale:</b>						
Mortgage-backed securities	\$101	\$3,702	\$1,506	\$28,124	\$1,607	\$31,826
U.S. Government Agency securities	80	7,666	178	6,566	258	14,232
Corporate bonds	—	—	212	4,866	212	4,866
Other investments <sup>(1)</sup>	—	—	649	9,351	649	9,351
Total available-for-sale securities	\$181	\$11,368	\$2,545	\$48,907	\$2,726	\$60,275
<b>Held-to-Maturity:</b>						
Mortgage-backed securities	\$188	\$7,681	\$59	\$1,612	\$247	\$9,293
Total held-to-maturity securities	\$188	\$7,681	\$59	\$1,612	\$247	\$9,293

<sup>(1)</sup> Primarily comprised of an investment in a CRA fund with 95% of its underlying investments consisting of government and agency-backed securities.

A total of 37 securities had an unrealized loss at December 31, 2018 compared to 35 at March 31, 2018. U.S. government agency securities and mortgage-backed securities represented 41.7% and 32.7%, respectively, of total available-for-sale securities in an unrealized loss position at December 31, 2018. There were 18 mortgage-backed securities, three U.S. government agency securities, and five corporate bonds that had an unrealized loss position for more than 12 months at December 31, 2018. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, and the corporate securities which are all reputable institutions in good financial standing, the risk of credit loss is minimal. Management believes that these unrealized losses are a direct result of the current rate environment and has the ability and intent to hold the securities until maturity or until the valuation recovers.

The amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Company will not be required to sell the security prior to the recovery of the non-credit impairment is accounted for as follows: (1) the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and (2) the remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). During the fiscal year ended March 31, 2018, the Bank recognized an impairment of

less than \$500 on a mortgage-backed security. The Bank did not have any other securities that were classified as having other-than-temporary impairment in its investment portfolio at December 31, 2018.

The following is a summary of the amortized cost and fair value of debt securities at December 31, 2018, 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	\$ 8,495	\$ 8,472	2.05	%
One through five years	17,650	17,364	2.05	%
Five through ten years	18,466	18,077	2.73	%
After ten years	59,438	58,417	2.84	%
Total	\$ 104,049	\$ 102,330	2.63	%
Held-to-maturity:				
One through five years	\$ 4,585	\$ 4,508	2.40	%
Five through ten years	\$ 4,025	\$ 3,992	3.46	%
After ten years	2,730	2,694	2.70	%
Total	\$ 11,340	\$ 11,194	2.85	%

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

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

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

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

The following is a summary of loans receivable at December 31, 2018 and March 31, 2018:

\$ in thousands	December 31, 2018		March 31, 2018	
	Amount	Percent	Amount	Percent
Gross loans receivable:				
One-to-four family	\$ 110,105	26.0 %	\$ 121,233	25.6 %
Multifamily	86,962	20.5 %	103,887	21.9 %
Commercial real estate	123,860	29.2 %	141,835	29.9 %
Business <sup>(1)</sup>	98,887	23.3 %	102,004	21.5 %
Consumer <sup>(2)</sup>	4,412	1.0 %	5,238	1.1 %
Total loans receivable	\$ 424,226	100.0 %	\$ 474,197	100.0 %
Unamortized premiums, deferred costs and fees, net	3,181		3,556	

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Allowance for loan losses	(4,802 )	(5,126 )
Total loans receivable, net	\$422,605	\$472,627

(1) Includes business overdrafts

(2) Includes personal loans and consumer overdrafts

11

---

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the three and nine month periods ended December 31, 2018 and 2017, and the fiscal year ended March 31, 2018.

Three months ended December 31, 2018

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Constructi	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$ 1,481	\$ 939	\$ 702	\$ —	—\$1,530	\$ 140	\$ —	\$4,792
Charge-offs	(6 )	—	—	—	(490 )	(7 )	—	(503 )
Recoveries	186	—	—	—	658	1	—	845
Provision for (recovery of) Loan Losses	(198 )	(65 )	36	—	(320 )	(12 )	227	(332 )
Ending Balance	\$ 1,463	\$ 874	\$ 738	\$ —	—\$1,378	\$ 122	\$ 227	\$4,802

Nine months ended December 31, 2018

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Constructi	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	\$1,210	\$1,819	\$1,052	\$ —	—\$1,003	\$ 18	\$ 24	\$5,126
Charge-offs	(151 )	(100 )	—	—	(830 )	(12 )	—	(1,093 )
Recoveries	186	158	—	—	667	36	—	1,047
Provision for (recovery of) Loan Losses	218	(1,003 )	(314 )	—	538	80	203	(278 )
Ending Balance	\$1,463	\$ 874	\$ 738	\$ —	—\$1,378	\$ 122	\$ 227	\$4,802
December 31, 2018:								
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	\$1,288	\$ 874	\$ 738	\$ —	—\$1,360	\$ 122	\$ 227	\$4,609
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	175	—	—	—	18	—	—	193
Loan Receivables Ending Balance:								
Ending Balance: collectively evaluated for impairment	\$111,776	\$ 87,705	\$ 124,352	\$ —	—\$99,118	\$ 4,456	\$ —	\$427,407
Ending Balance: individually evaluated for impairment	106,333	84,997	123,870	—	95,544	4,456	—	415,200
Ending Balance: individually evaluated for impairment	5,443	2,708	482	—	3,574	—	—	12,207

At March 31, 2018

\$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Constructi	Business	Consumer	Unallocated	Total
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	\$ 1,065	\$ 1,744	\$ 1,052	\$ —	—\$908	\$ 18	\$ 24	\$4,811
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	145	75	—	—	95	—	—	315



Edgar Filing: CARVER BANCORP INC - Form 10-Q

Loan Receivables Ending Balance:	\$ 123,092	\$ 104,865	\$ 142,304	\$	—\$102,203	\$ 5,289	\$ —	\$477,753
Ending Balance: collectively evaluated for impairment	116,588	103,160	140,765	—	98,914	5,289	—	464,716
Ending Balance: individually evaluated for impairment	6,504	1,705	1,539	—	3,289	—	—	13,037

12

---

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Three months ended December 31, 2017

\$ in thousands	One-to-four family	Multifamily	Commercial		Business	Consumer	Unallocated	Total
			Real Estate	Construction				
Allowance for loan losses:								
Beginning Balance	\$ 1,179	\$ 1,369	\$ 1,692	\$ —	\$ 832	\$ 20	\$ 34	\$ 5,126
Charge-offs	—	(36 )	—	—	(27 )	(7 )	—	(70 )
Recoveries	—	—	5	—	3	—	—	8
Provision for (recovery of) Loan Losses	(52 )	(25 )	(25 )	—	(31 )	8	131	6
Ending Balance	\$ 1,127	\$ 1,308	\$ 1,672	\$ —	\$ 777	\$ 21	\$ 165	\$ 5,070

Nine months ended December 31, 2017

\$ in thousands	One-to-four family	Multifamily	Commercial		Business	Consumer	Unallocated	Total
			Real Estate	Construction				
Allowance for loan losses:								
Beginning Balance	\$ 1,663	\$ 1,213	\$ 1,496	\$ 106	\$ 573	\$ 9	\$ —	\$ 5,060
Charge-offs	(93 )	(42 )	—	—	(47 )	(29 )	—	(211 )
Recoveries	—	—	15	—	72	4	—	91
Provision for (recovery of) Loan Losses	(443 )	137	161	(106 )	179	37	165	130
Ending Balance	\$ 1,127	\$ 1,308	\$ 1,672	\$ —	\$ 777	\$ 21	\$ 165	\$ 5,070

The following is a summary of nonaccrual loans at December 31, 2018 and March 31, 2018.

\$ in thousands	December	March
	31, 2018	31, 2018
Gross loans receivable:		
One-to-four family	\$ 4,508	\$ 4,561
Multifamily	2,708	964
Commercial real estate	1,233	502
Business	1,467	635
Total nonaccrual loans	\$ 9,916	\$ 6,662

Nonaccrual loans generally consist of loans for which the accrual of interest has been discontinued as a result of such loans becoming 90 days or more delinquent as to principal and/or interest payments. Interest income on nonaccrual loans is recorded when received based upon the collectability of the loan.

At December 31, 2018, other non-performing assets totaled \$453 thousand which consisted of other real estate owned comprised of four foreclosed residential properties, compared to \$552 thousand comprised of eight properties, which included \$438 thousand of residential properties at March 31, 2018. At December 31, 2018 and March 31, 2018, the Bank had no non-performing held-for-sale loans.

Although we believe that substantially all risk elements at December 31, 2018 have been disclosed, it is possible that for a variety of reasons, including economic conditions, certain borrowers may be unable to comply with the contractual repayment terms on certain real estate and commercial loans.

The Bank utilizes an internal loan classification system as a means of reporting problem loans within its loan categories. Loans may be classified as "Pass," "Special Mention," "Substandard," "Doubtful," and "Loss." Loans rated Pass

have demonstrated satisfactory asset quality, earning history, liquidity, and other adequate margins of creditor protection. They represent a moderate credit risk and some degree of financial stability. Loans are considered collectible in full, but perhaps require greater than average amount of loan officer attention. Borrowers are capable of absorbing normal setbacks without failure. Loans rated Special Mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Loans rated Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans rated Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection

or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged off immediately to the allowance for loan losses.

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

At December 31, 2018, and based on the most recent analysis performed in the current quarter, the risk category by class of loans is as follows:

\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
<b>Credit Risk Profile by Internally Assigned Grade:</b>				
Pass	\$ 84,997	\$ 123,234	\$ —	\$ 89,139
Special Mention	—	636	—	5,751
Substandard	2,708	482	—	4,228
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$ 87,705	\$ 124,352	\$ —	\$ 99,118
<b>Credit Risk Profile Based on Payment Activity:</b>				
Performing			\$ 108,015	\$ 4,411
Non-Performing			3,761	45
Total			\$ 111,776	\$ 4,456

At March 31, 2018, and based on the most recent analysis performed, the risk category by class of loans is as follows:

\$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
<b>Credit Risk Profile by Internally Assigned Grade:</b>				
Pass	\$ 103,160	\$ 140,765	\$ —	\$ 93,886
Special Mention	—	—	—	5,028
Substandard	1,705	1,539	—	3,289
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	\$ 104,865	\$ 142,304	\$ —	\$ 102,203
<b>Credit Risk Profile Based on Payment Activity:</b>				
Performing			\$ 116,588	\$ 5,289
Non-Performing			6,504	—
Total			\$ 123,092	\$ 5,289

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table presents an aging analysis of the recorded investment of past due financing receivables at December 31, 2018 and March 31, 2018.

December 31, 2018

\$ in thousands	30-59	60-89	90 or	Total Past Due	Current	Total Financing Receivables
	Days Past Due	Days Past Due	More Days Past Due			
One-to-four family	\$1,847	\$ —	\$3,761	\$5,608	\$106,168	\$111,776
Multifamily	2,449	—	1,601	4,050	83,655	87,705
Commercial real estate	5,411	—	—	5,411	118,941	124,352
Business	5,448	98	688	6,234	92,884	99,118
Consumer	36	1	—	37	4,419	4,456
Total	\$15,191	\$ 99	\$6,050	\$21,340	\$406,067	\$427,407

March 31, 2018

\$ in thousands	30-59	60-89	90 or	Total Past Due	Current	Total Financing Receivables
	Days Past Due	Days Past Due	More Days Past Due			
One-to-four family	\$1,819	\$—	\$4,056	\$5,875	\$117,217	\$123,092
Multifamily	—	—	219	219	104,646	104,865
Commercial real estate	1,395	—	—	1,395	140,909	142,304
Business	973	312	322	1,607	100,596	102,203
Consumer	7	5	—	12	5,277	5,289
Total	\$4,194	\$317	\$4,597	\$9,108	\$468,645	\$477,753

The following table presents information on impaired loans with the associated allowance amount, if applicable, at December 31, 2018 and March 31, 2018.

\$ in thousands	At December 31, 2018			At March 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:						
One-to-four family	\$4,508	\$5,663	\$ —	\$5,439	\$6,862	\$ —
Multifamily	2,708	2,708	—	964	1,122	—
Commercial real estate	482	482	—	1,539	1,539	—
Business	1,774	1,795	—	611	611	—
With an allowance recorded:						
One-to-four family	935	930	175	1,065	1,065	145
Multifamily	—	—	—	741	741	75
Business	1,800	1,804	18	2,678	2,681	95
Total	\$12,207	\$13,382	\$ 193	\$13,037	\$14,621	\$ 315

Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following tables presents information on average balances on impaired loans and the interest income recognized on a cash basis for the three and nine month periods ended December 31, 2018 and 2017.

\$ in thousands	For the Three Months Ended December 31,				For the Nine Months Ended December 31,			
	2018		2017		2018		2017	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
With no specific allowance recorded:								
One-to-four family	\$4,608	\$ 25	\$5,284	\$ 3	\$4,973	\$ 60	\$5,099	\$ 15
Multifamily	2,518	11	1,068	9	1,836	29	1,379	25
Commercial real estate	486	8	799	9	1,011	16	1,912	28
Business	1,204	—	1,632	—	1,192	6	2,020	—
With an allowance recorded:								
One-to-four family	938	—	1,381	—	1,000	—	1,388	1
Multifamily	—	—	—	—	371	—	—	—
Business	2,428	—	2,623	1	2,239	4	2,603	—
Total	\$12,182	\$ 44	\$12,787	\$ 22	\$12,622	\$ 115	\$14,401	\$ 69

Troubled debt restructured ("TDR") loans consist of modified loans where borrowers have been granted concessions in regards to the terms of their loans due to financial or other difficulties, which rendered them unable to repay their loans under the original contractual terms. Total TDR loans at December 31, 2018 were \$5.5 million, \$3.2 million of which were non-performing as they were either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months. At March 31, 2018, total TDR loans were \$5.7 million, of which \$1.9 million were non-performing.

In certain circumstances, the Bank will modify a loan as part of a TDR under GAAP. Situations around these modifications may include extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, reduction in the face amount of the debt or reduction of past accrued interest. Loans modified in TDRs are placed on nonaccrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months.

There were two loan modifications made during the three month period and three modifications made during the nine month periods ended December 31, 2018. There was one loan modification made during the three and nine month periods ended December 31, 2017. The modification converted a line of credit into a five-year term loan with an interest concession. The following tables presents an analysis of those loan modifications that were classified as TDRs during the three and nine month periods ended December 31, 2018 and 2017.

\$ in thousands	Modifications to loans during the three month period ended December 31, 2018						Modifications to loans during the nine month period ended December 31, 2018					
	Number of outstanding loans recorded investment	Post-Modification Recorded investment	Pre-Modification rate	Post-Modification rate	Number of outstanding loans recorded investment	Post-Modification Recorded investment	Pre-Modification rate	Post-Modification rate	Number of outstanding loans recorded investment	Post-Modification Recorded investment	Pre-Modification rate	Post-Modification rate
Business	2 1,014	648	6.11 %	6.24 %	3 2,776	2,360	6.51 %	6.06 %				
	Modifications to loans during the three month period ended December 31, 2017						Modifications to loans during the nine month period ended December 31, 2017					

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	Pre-modification				Post-Modification			
	Number of outstanding loans	Recorded investment	Pre-Modification rate	Post-Modification rate	Number of outstanding loans	Recorded investment	Pre-Modification rate	Post-Modification rate
Business	—	\$	—%	—%	1	\$ 285	7.25 %	7.00 %

16

---

In an effort to proactively resolve delinquent loans, the Bank has selectively extended to certain borrowers concessions such as extensions, rate reductions or forbearance agreements. For the periods ended December 31, 2018 and 2017, there were no modified loans that defaulted within 12 months of modification.

At December 31, 2018, there were 8 loans in the TDR portfolio totaling \$2.3 million that were on accrual status as the Company has determined that future collection of the principal and interest is reasonably assured. These have generally performed according to restructured terms for a period of at least six months. At March 31, 2018, there were 11 loans in the performing TDR portfolio totaling \$3.9 million.

#### Transactions With Certain Related Persons

Federal law requires that all loans or extensions of credit to executive officers and directors must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public and must not involve more than the normal risk of repayment or present other unfavorable features.

The aggregate amount of loans outstanding to related parties was \$80 thousand at December 31, 2018 and \$120 thousand at March 31, 2018. During the nine months ended December 31, 2018, there were no advances and principal repayments totaled \$40 thousand.

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

#### NOTE 8. FAIR VALUE MEASUREMENTS

Per GAAP, 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, GAAP 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.



Edgar Filing: CARVER BANCORP INC - Form 10-Q

The following table presents, by valuation hierarchy, assets that are measured at fair value on a recurring basis as of December 31, 2018 and March 31, 2018, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

\$ in thousands	Fair Value Measurements at December 31, 2018, 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
Mortgage servicing rights	\$—	\$ —	\$ 209	\$209
Investment securities				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—	4,461	—	4,461
Federal Home Loan Mortgage Corporation	—	15,378	—	15,378
Federal National Mortgage Association	—	26,816	—	26,816
U.S. Government Agency Securities	—	34,479	—	34,479
U.S. Treasury Securities	16,340	—	—	16,340
Corporate bonds	—	4,856	—	4,856
Total available-for-sale securities	16,340	85,990	—	102,330
Equity securities	—	—	416	416
Total	\$16,340	\$ 85,990	\$ 625	\$102,955

\$ in thousands	Fair Value Measurements at March 31, 2018, 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
Mortgage servicing rights	\$—	\$ —	\$ 181	\$181
Investment securities				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—2,066	—	—	2,066
Federal Home Loan Mortgage Corporation	—6,350	—	—	6,350
Federal National Mortgage Association	—23,411	—	—	23,411
U.S. Government Agency securities	—14,232	—	—	14,232
Corporate bonds	—4,866	—	—	4,866

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Other investments	—9,351	433	9,784
Total available-for-sale securities	—60,276	433	60,709
Total	\$—60,276	\$ 614	\$60,890

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights (“MSR”) and other equity securities. Level 3 assets accounted for less than 1.0% of the Company’s total assets measured at fair value at December 31, 2018 and March 31, 2018.

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

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

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

Edgar Filing: CARVER BANCORP INC - Form 10-Q

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

In the nine month period ended December 31, 2018, there were no transfers of investments into or out of each level of the fair value hierarchy.

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

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

The following table includes a rollforward of assets classified by the Company within Level 3 of the valuation hierarchy for the nine months ended December 31, 2018 and 2017:

\$ in thousands	Beginning balance, April 1, 2018	Total Realized/Unrealized Gains/(Losses) Recorded in Income (1)	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, December 31, 2018	Change in Unrealized Gains and (Losses) Related to Instruments Held at December 31, 2018
Equity securities	\$ 433	\$ (17 )	\$ —	\$ —	\$ 416	\$ —
Mortgage servicing rights	181	28	—	—	209	26

  

\$ in thousands	Beginning balance, April 1, 2017	Total Realized/Unrealized Gains/(Losses) Recorded in Income (1)	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, December 31, 2017	Change in Unrealized Gains and (Losses) Related to Instruments Held at December 31, 2017
Available-for-Sale: Other investments	\$ 403	\$ (12 )	\$ —	\$ —	\$ 391	\$ —

Edgar Filing: CARVER BANCORP INC - Form 10-Q

Mortgage servicing rights 192 (9 ) — — 183 (8 )

(1) Includes net servicing cash flows and the passage of time.

For Level 3 assets measured at fair value on a recurring basis as of December 31, 2018 and March 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

\$ in thousands	Fair Value December 31, 2018	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Equity securities	\$ 416	Cost	n/a	
Mortgage Servicing Rights	209	Discounted Cash Flow	Weighted Average Constant Prepayment Rate <sup>(1)</sup> Option Adjusted Spread ("OAS") applied to Treasury curve	9.28 % 1000 basis points

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	Fair Value	March 31, 2018	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value	
Available-for-Sale:						
Other investments	\$ 433		Cost	n/a		
Mortgage Servicing Rights	181		Discounted Cash Flow	Weighted Average Constant Prepayment Rate <sup>(1)</sup> Discount Rate	20.03 12.00	% %

<sup>(1)</sup> Represents annualized loan repayment rate assumptions

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g. when there is evidence of impairment). The following table presents assets and liabilities that were measured at fair value on a non-recurring basis as of December 31, 2018 and March 31, 2018, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

\$ in thousands	Fair Value Measurements at December 31, 2018, Using Quoted Prices in Significant			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$—	\$—	\$ 2,542	\$ 2,542
Other real estate owned	—	—	453	\$ 453

\$ in thousands	Fair Value Measurements at March 31, 2018, Using Quoted Prices in Significant			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$—	\$—	\$ 4,476	\$ 4,476
Other real estate owned	—	—	1,145	\$ 1,145

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2018 and March 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

\$ in thousands	Fair Value	Valuation Technique
-----------------	------------	---------------------

Edgar Filing: CARVER BANCORP INC - Form 10-Q

	December 31, 2018		Significant Unobservable Inputs	Significant Unobservable Input Value
Impaired loans	\$ 2,542	Appraisal of collateral	Costs to sell	7.5% cost to sell
Other real estate owned	453	Appraisal of collateral	Costs to sell	7.5% cost to sell
	Fair Value			
\$ in thousands	March 31, 2018	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Impaired loans	\$ 4,476	Appraisal of collateral	Costs to sell	7.5% cost to sell
Other real estate owned	1,145	Appraisal of collateral	Costs to sell	7.5% cost to sell

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

Other real estate owned represents property acquired by the Bank in settlement of loans less costs to sell (i.e., through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value. At the time of acquisition of the real estate owned, the real property value is adjusted to its current fair value. Any subsequent adjustments will be to the lower of cost or market.

## NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures regarding the fair value of financial instruments are required to include, in addition to the carrying value, the fair value of certain financial instruments, both assets and liabilities recorded on and off-balance sheet, for which it is practicable to estimate fair value. Accounting guidance defines financial instruments as cash, evidence of ownership of an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument. The fair value of a financial instrument is discussed below. In cases where quoted market prices are not available, estimated fair values have been determined by the Bank using the best available data and estimation methodology suitable for each such category of financial instruments. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate their recorded carrying value. The Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the Bank's fair value of all interest-earning assets and interest-bearing liabilities, other than those which are short-term in maturity.

The carrying amounts and estimated fair values of the Bank's financial instruments and estimation methodologies at December 31, 2018 and March 31, 2018 are as follows:

\$ in thousands	December 31, 2018				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$40,073	\$40,073	\$40,073	\$ —	\$ —
Securities available-for-sale	102,330	102,330	16,340	85,990	—
Equity securities	416	416	—	—	416
FHLB Stock	566	566	—	566	—
Securities held-to-maturity	11,340	11,194	—	11,194	—
Loans receivable	422,605	420,568	—	—	420,568
Accrued interest receivable	2,068	2,068	—	2,068	—
Mortgage servicing rights	209	209	—	—	209
Other assets - Interest-bearing deposits	975	975	—	975	—
<b>Financial Liabilities:</b>					
Deposits	\$513,017	\$510,522	\$282,634	\$ 227,888	\$ —
Other borrowed money	13,403	13,403	—	13,403	—
Accrued interest payable	1,684	1,684	—	1,684	—

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	March 31, 2018				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$134,558	\$134,558	\$134,558	\$ —	\$ —
Securities available-for-sale	60,709	60,709	—	60,276	433
FHLB Stock	1,768	1,768	—	1,768	—
Securities held-to-maturity	12,075	11,909	—	11,909	—
Loans receivable	472,627	469,382	—	—	469,382
Accrued interest receivable	2,023	2,023	—	2,023	—
Mortgage servicing rights	181	181	—	—	181
Other assets - Interest-bearing deposits	971	971	—	971	—
<b>Financial Liabilities:</b>					
Deposits	\$586,883	\$535,808	\$245,634	\$290,174	\$ —
Advances from FHLB of New York	25,000	24,970	—	24,970	—
Other borrowed money	13,403	14,565	—	14,565	—
Accrued interest payable	1,086	1,086	—	1,086	—

Securities

The fair values for securities available-for-sale, securities held-to-maturity and equity securities are based on quoted market or dealer prices, if available. If quoted market or dealer prices are not available, fair value is estimated using quoted market or dealer prices for similar securities. Available-for-sale securities and equity securities are classified across Levels 1, 2 and 3. Held-to-maturity securities are classified as Level 2.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is determined by discounting the present value of estimated future servicing cash flows using current market assumptions for prepayments, servicing costs and other factors and are classified as Level 3.

NOTE 10. NON-INTEREST REVENUE

On April 1, 2018, the Company adopted ASU No, 2014-09, "Revenue from Contracts with Customers (Topic 606)" and all subsequent ASUs that modified Topic 606. As stated in Note 11. Impact of Recent Accounting Standards, the implementation of the new standard did not have a material impact to the Company's consolidated financial statements and as such, management determined that a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after April 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with the previous accounting guidance under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as gains on sales of residential mortgage and SBA loans, income associated with servicing assets, and loan fees, including residential mortgage originations to be sold



and prepayment and late fees charged across all loan categories are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams, such as depository fees, service charges and commission revenues. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Non-interest revenue streams in-scope of Topic 606 are discussed below.

#### Depository fees and charges

Depository fees and charges primarily relate to service fees on deposit accounts and fees earned from debit cards and check cashing transactions. Service fees on deposit accounts consist of ATM fees, NSF fees, account maintenance charges and other deposit related fees. The revenue is recognized monthly when the Bank's performance obligations are complete, or as incurred for transaction-based fees in accordance with the fee schedules for the Bank's deposit products and services.

## Loan fees and service charges

Loan fees and service charges primarily relate to program management fees and fees earned in accordance with the Bank's mortgage servicing and sub-servicing contracts. The revenue earned from serviced mortgage loans is recognized on a monthly basis upon receipt from the contractual remittance summary.

## Other non-interest income

Other non-interest income primarily relates to an advertising services agreement, covering marketing and use of the Bank's office space with a third party. The revenue is recognized on a monthly basis.

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and nine months ended December 31, 2018 and 2017:

\$ in thousands	Three Months		Nine Months	
	Ended December 31, 2018	2017	Ended December 31, 2018	2017
Non-interest income				
In-scope of Topic 606				
Depository fees and charges	\$862	\$817	\$2,549	\$2,563
Loan fees and service charges	102	171	223	396
Other non-interest income	15	36	48	73
Non-interest income (in-scope of Topic 606)	979	1,024	2,820	3,032
Non-interest income (out-of-scope of Topic 606)	348	322	890	662
Total non-interest income	\$1,327	\$1,346	\$3,710	\$3,694

## NOTE 11. IMPACT OF RECENT ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard, as modified and augmented by subsequently issued pronouncements (ASUs 2016-08, 2016-10, 2016-12, 2016-20, 2017-05, 2017-13 and 2017-14) is effective for annual periods beginning after December 15, 2017 (April 1, 2018 for the Company), and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company has completed its review of the impact of this guidance and concluded that (1) a substantial majority of the Company's revenue is comprised of interest income on financial assets, which is explicitly excluded from the scope of ASU 2014-09 and (2) based on our understanding of the standard and subsequent modification and the nature of our non-interest revenue, many elements of non-interest income will be unaffected. The Company identified the non-interest income streams that are contractually based and has adopted this ASU on a modified retrospective approach. Since the new guidance does not have a material impact to the Company's consolidated financial statements, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments (1) require equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (4) require public business entities to use an exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) require an entity to separately present in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (6) require separate presentation of financial assets and financial liabilities by measurement

category and form of financial asset on the balance sheet or the accompanying notes to the financial statements, and (7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017 (for the Company, the fiscal year ended March 31, 2019), including interim periods within those fiscal years. The adoption of this standard by public entities is permitted as of the beginning of the year of adoption for selected amendments, including the amendment related to unrealized gains and losses on equity securities, by a cumulative effect adjustment to the statement of financial condition. In February 2018, the FASB issued ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10)" to clarify certain aspects of the guidance issued in ASU 2016-01. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. The Company completed its evaluation of the provisions of ASU 2016-01 and identified the equity investments that falls under ASU 2016-01. The Company adopted this ASU during the first quarter of fiscal year 2019 and the impact amounted to a cumulative effect adjustment of \$721 thousand as a reclassification from accumulated other comprehensive loss to accumulated deficit. Additionally, all future unrealized gains and losses will be recognized in the Statements of Operations. See Note 6 "Investment Securities" for further information.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. ASU No. 2016-02, as augmented by ASU No. 2018-01, is effective for fiscal years beginning after December 15, 2018 (for the Company, the fiscal year ended March 31, 2020), including interim periods within those fiscal years. In July 2018, the FASB issued ASU No. 2018-10, "Codification Improvements to Topic 842, Leases," to clarify and correct unintended application of the guidance in ASU No. 2016-02. The amendments in this ASU affect aspects of the guidance and provide clarification to related topics such as 1) rate implicit in the lease; 2) reassessment of leases; 3) transition guidance; and 4) impairment of net investment in the lease. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) Target Improvements," which provides guidance related to comparative reporting requirements for initial adoption. This amendment provides entities with another transition method, in addition to the modified retrospective approach, by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB issued ASU 2018-20, "Leases (Topic 842) Narrow-Scope Improvements for Lessors," which clarifies how to apply the leases standard when accounting for sales taxes and other similar taxes collected from lessees, certain lessor costs, and recognition of variable payments for contracts with lease and nonlease components. The Company currently expects that upon adoption of ASU 2016-02, ROU assets and lease liabilities will be recognized in the consolidated balance sheet in amounts that will be material.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Loss," which updates the guidance on recognition and measurement of credit losses for financial assets. The new requirements, known as the current expected credit loss model ("CECL") will require entities to adopt an impairment model based on expected losses rather than incurred losses. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019 (for the Company, the fiscal year ending March 31, 2021), including interim periods within those fiscal years. The Company is currently evaluating the potential impact of the adoption of the new standard on its consolidated statements of financial condition and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," a consensus of the FASB's Emerging Issues Task Force. The update is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows, and provides guidance on how the following cash receipts and payments should be presented and classified in the statement of cash flows: debt prepayment or debt extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, settlements of insurance claims, settlements of corporate-owned and bank-owned life insurance policies, distributions received from equity method investees, and beneficial interests in securitization transactions. The ASU also clarifies when an entity should separate cash receipts and payments and classify them into more than one class of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017 (for the Company, the fiscal year ending March 31, 2019), and interim periods within those fiscal years. The Company has evaluated the potential impact of the adoption of the new standard on its consolidated statement of cash flows and is generally unaffected by the update. The items defined in the ASU are not relevant to the Company's operations at this time.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," to require that a statement of cash flows explain the change during the period in restricted cash or restricted cash equivalents, in addition to changes in cash and cash equivalents. The update provides guidance that restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2017 (for the Company, the fiscal year ending March 31, 2019), and interim periods within those fiscal years. The Company has completed its assessment of the impact of adopting of ASU 2016-18 and is generally unaffected by the update. The Company does not have restricted cash at this time.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The amendments are effective for fiscal years beginning after December 15, 2018 (for the Company, the fiscal year ending March 31, 2020), and interim periods within those fiscal years. Based on management's review of the securities in the Company's portfolio at December 31, 2018, the adoption of the standard is not expected to have a material impact on the Company's consolidated statements of financial condition and results of operations.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting," which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 (for the Company, the fiscal year ending March 31, 2019). The adoption of the standard does not have a material impact on the Company's consolidated statements of financial condition and results of operations.

In February 2018, the FASB issued ASU No. 2018-02 "Income Statement - Reporting Comprehensive Income (Topic 220)," which allows a reclassification for stranded tax effects from accumulated other comprehensive income to retained earnings, to eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments addressed concerns regarding the guidance that requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting periods that include the enactment date. The amendments of this update are effective for fiscal years beginning after December 15, 2018 (for the Company, the fiscal year ending March 31, 2020), and interim periods within those fiscal years. Early adoption is permitted in any interim period for reporting periods for which financial statements have not yet been issued.

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

### Forward-Looking Statements

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

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

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

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

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

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

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

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

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

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

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

changes in the level of government support of housing finance;

our ability to control costs and expenses;

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

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

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

changes in consumer spending, borrowing and savings habits;

technological changes that may be more difficult to implement or more costly than anticipated;

changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities, which may adversely affect our business;

changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies or the Financial Accounting Standards Board could negatively impact the Company's financial results;

litigation or regulatory actions, whether currently existing or commencing in the future, which may restrict our operations or strategic business plan;

the ability to originate and purchase loans with attractive terms and acceptable credit quality; and

the ability to attract and retain key members of management, and to address staffing needs in response to product demand or to implement business initiatives.



Because forward-looking statements are subject to numerous assumptions, risks and uncertainties, actual results or future events could differ possibly materially from those that the company anticipated in its forward-looking statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date of this Quarterly Report on Form 10-Q, and the Company assumes no obligation to, and expressly disclaims any obligation to, update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements, except as legally required.

Overview

26

---

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

Carver Federal is among the largest African-American operated banks in the United States. The Bank remains dedicated to expanding wealth-enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank's fourth consecutive "Outstanding" rating, issued by the OCC following its most recent Community Reinvestment Act ("CRA") examination in January 2016. The OCC found that approximately 75% of originated and purchased loans were within Carver's assessment area, and the Bank has demonstrated excellent responsiveness to its assessment area's needs through its community development lending, investing and service activities. The Bank had approximately \$590.4 million in assets and 119 employees as of December 31, 2018.

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

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

Carver Federal's 70-year history in its market area, its community involvement and relationships, targeted products and services and personal service consistent with community banking, help the Bank compete with competitors in its market.

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

New Markets Tax Credit Award

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

In June 2006, CCDC was selected by the U.S. Department of Treasury, in a highly competitive process, to receive an award of \$59 million in NMTC. CCDC received a second NMTC award of \$65 million in May 2009, and a third award of \$25 million in August 2011. CCDC provides funding to underlying projects. While providing funding to investments in the NMTC eligible projects, CCDC has retained a 0.01% interest in other special purpose entities created to facilitate the investments, with the investors owning the remaining 99.99%. CCDC also provides certain administrative services to these entities and receives servicing fee income during the term of the qualifying projects. The Bank has determined that it and CCDC do not have the sole power to direct activities of these special purpose entities that significantly impact the entities' performance, and therefore are not the primary beneficiaries of these entities. The Bank has a contingent obligation to reimburse the investors for any loss or shortfall incurred as a result of the NMTC projects not being in compliance with certain regulations that would void the investors' ability to otherwise utilize tax credits stemming from the award. As of December 31, 2018, all three award allocations have been fully utilized in qualifying projects.

The Bank's unconsolidated variable interest entities ("VIEs"), in which the Company holds significant variable interests or has continuing involvement through servicing a majority of assets in a VIE at December 31, 2018, are presented below.

Involvement with SPE (000's)					Funded Exposure		Unfunded Exposure	Total
	Recognized Gain (Loss) (000's)	Total Rights transferred	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments	Maximum Funding exposure to loss	
Carver Statutory Trust 1	\$ —	\$ —	\$ 13,400	\$ 13,400	\$13,000	\$ 400	\$ —	\$ 13,400
CDE 16, CDE 17	900	20,500	—	—	—	—	—7,995	7,995
CDE 18	600	13,254	—	—	—	—	—5,169	5,169
CDE 19	500	10,746	11,034	11,034	—	1	—4,191	4,192
CDE 20	625	12,500	11,884	11,884	—	1	—4,875	4,876
CDE 21	625	12,500	11,936	11,936	—	1	—4,875	4,876
Total	\$ 3,250	\$ 69,500	\$ 48,254	\$ 48,254	\$13,000	\$ 403	\$ —27,105	\$ 40,508

#### Critical Accounting Policies

Note 2 to the Company's audited Consolidated Financial Statements for the year ended March 31, 2018 included in its 2018 Form 10-K, as supplemented by this report, contains a summary of significant accounting policies. The Company believes its policies, with respect to the methodologies used to determine the allowance for loan and lease losses, securities impairment, assessment of the recoverability of the deferred tax asset, and the fair value of financial instruments involve a high degree of complexity and require management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. The following description of these policies should be read in conjunction with the corresponding section of the Company's fiscal 2018 Form 10-K.

Allowance for Loan and Lease Losses

The adequacy of the Bank's ALLL is determined, in accordance with the Interagency Policy Statement on the Allowance for Loan and Lease Losses (the "Interagency Policy Statement") released by the OCC on December 13, 2006 and in accordance with ASC Subtopics 450-20 "Loss Contingencies" and 310-10 "Accounting by Creditors for Impairment of a Loan." Compliance with the Interagency Policy Statement includes management's review of the Bank's loan portfolio, including the identification and review of individual problem situations that may affect a borrower's ability to repay. In addition, management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral,

28

---

current charge-offs and other factors that may affect the portfolio, including a review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio.

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is significant judgment applied in estimating the ALLL. These assumptions and estimates are susceptible to significant changes based on the current environment. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio.

#### General Reserve Allowance

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

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

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

- Pass
- Special Mention
- Substandard
- Doubtful

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

Because actual loss experience may not adequately predict the level of losses inherent in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be adjusted based upon any of those factors. As the risk ratings worsen, some of the qualitative factors tend to increase. The nine qualitative factors the Bank considers and may utilize are:

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

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

#### Specific Reserve Allowance

The Bank also maintains a specific reserve allowance for criticized and classified loans individually reviewed for impairment in accordance with ASC Subtopic 310-10 guidelines. The amount assigned to the specific reserve allowance is individually determined based upon the loan. The ASC Subtopic 310-10 guidelines require the use of one of three approved methods to estimate the amount to be reserved and/or charged off for such credits. The three methods are as follows:

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

The Bank may choose the appropriate ASC Subtopic 310-10 measurement on a loan-by-loan basis for an individually impaired loan, except for an impaired collateral dependent loan. Guidance requires impairment of a collateral dependent loan to be measured using the fair value of collateral method. A loan is considered "collateral dependent" when the repayment of the debt will be provided solely by the underlying collateral, and there are no other available and reliable sources of repayment.

Criticized and classified loans with at risk balances of \$500,000 or more and loans below \$500,000 that the Chief Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Subtopic 310-10. Carver also performs impairment analysis for all TDRs. If it is determined that it is probable the Bank will be unable to collect all amounts due according with the contractual terms of the loan agreement, the loan is categorized as impaired.

If the loan is determined to not be impaired, it is then placed in the appropriate pool of criticized and classified loans to be evaluated collectively for impairment. Loans determined to be impaired are evaluated to determine the amount of impairment based on one of the three measurement methods noted above. The Bank then determines whether the impairment amount is permanent, in which case the loan is written down by the amount of the impairment, or if it is other than permanent, in which case the Bank establishes a specific valuation reserve that is included in the total ALLL. In accordance with guidance, if there is no impairment amount, no reserve is established for the loan.

#### Troubled Debt Restructured Loans

TDRs are those loans whose terms have been modified because of deterioration in the financial condition of the borrower and a concession is made. Modifications could include extension of the terms of the loan, reduced interest rates, capitalization of interest and forgiveness of accrued interest and/or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered restructured until paid in full. For cash flow dependent loans, the Bank records a specific valuation allowance reserve equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the loan's original effective interest rate, and the loan's original carrying value. For a collateral dependent loan, the Bank records an impairment charge when the current estimated fair value of the property that collateralizes the impaired loan, if any, is less than the recorded investment in the loan. TDR loans remain on nonaccrual status until they have performed in accordance with the restructured terms for a period of at least six months.



## Securities Impairment

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

about investments in an unrealized loss position and the methodology and significant inputs used in determining the recognition of other-than-temporary impairment. During the fiscal year ended March 31, 2018, the Bank recognized an impairment of less than \$500 on a mortgage-backed security. The Bank does not have any other securities that are classified as having other-than-temporary impairment in its investment portfolio at December 31, 2018.

#### Deferred Tax Assets

The Company records income taxes in accordance with ASC 740 Topic "Income Taxes," as amended, using the asset and liability method. Income tax expense (benefit) consists of income taxes currently payable/(receivable) and deferred income taxes. Temporary differences between the basis of assets and liabilities for financial reporting and tax purposes are measured as of the balance sheet date. Deferred tax liabilities or recognizable deferred tax assets are calculated on such differences, using current statutory rates, which result in future taxable or deductible amounts. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Where applicable, deferred tax assets are reduced by a valuation allowance for any portion determined not likely to be realized. Management is continually reviewing the operation of the Company with a view to the future. Based on management's current analysis and the appropriate accounting literature, management is of the opinion that a full valuation allowance is appropriate. This valuation allowance could subsequently be adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant. On December 22, 2017, the Tax Cuts and Jobs Act was signed into law, reducing the corporate income tax rate from a 35% maximum rate to 21% effective January 1, 2018. Given that the Company has fully reserved all but \$212 thousand of its deferred tax asset, there is minimal impact to the financial statements.

On June 29, 2011, the Company raised \$55 million of capital, which resulted in a \$51.4 million increase in equity after considering the effect of various expenses associated with the capital raise. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carryforwards, general business credits, and recognized built-in losses, upon a change in ownership. The Company is currently subject to an annual limitation of approximately \$900 thousand. A valuation allowance for net deferred tax asset of \$22.0 million has been recorded. The valuation allowance was initially recorded during fiscal year 2011, and has remained through March 31, 2017, as management concluded and continues to conclude that it is "more likely than not" that the Company will not be able to fully realize the benefit of its deferred tax assets. However, tax legislation passed during the Company's fiscal year 2018 now permits a corporation to received refunds for AMT credits even if there is no taxable income. As a result, at March 31, 2018, the valuation allowance was reduced by \$340 thousand, the amount of the Company's AMT credits, which at December 31, 2018 is the \$212 thousand discussed above.

#### Stock Repurchase Program

On August 6, 2002, the Company announced a stock repurchase program to repurchase up to 15,442 shares of its outstanding common stock. As of December 31, 2018, 11,744 shares of its common stock have been repurchased in open market transactions at an average price of \$235.80 per share (as adjusted for 1-for-15 reverse stock split that occurred on October 27, 2011). The Company reissued shares as restricted stock in accordance with their management recognition plan. No shares were repurchased during the three months ended December 31, 2018. As a result of the Company's participation in the TARP CDCI, the U.S. Treasury's prior approval is required to make further repurchases. On October 28, 2011, the U.S. Treasury converted its preferred stock into common stock, which the U.S. Treasury continues to hold. The Company continues to be bound by the TARP CDCI restrictions so long as the U.S. Treasury is a common stockholder.

#### Liquidity and Capital Resources

Liquidity is a measure of the Bank's ability to generate adequate cash to meet its financial obligations. The principal cash requirements of a financial institution are to cover potential deposit outflows, fund increases in its loan and investment portfolios and ongoing operating expenses. The Bank's primary sources of funds are deposits, borrowed funds and principal and interest payments on loans, mortgage-backed securities and investment securities. While maturities and scheduled amortization of loans, mortgage-backed securities and investment securities are predictable sources of funds, deposit flows and loan and mortgage-backed securities prepayments are strongly influenced by changes in general interest rates, economic conditions and competition. Carver Federal monitors its liquidity utilizing regulatory guidelines that are contained in a policy developed by its management and approved by its Board of Directors. Carver Federal's several liquidity measurements are evaluated on a frequent basis. The Bank was in compliance with this policy as of December 31, 2018.

Management believes Carver Federal's short-term assets have sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash requirements, including interest payments on our subordinated debt securities. Additionally, Carver Federal has other sources of liquidity including the ability to borrow from the Federal Home

Loan Bank of New York (“FHLB-NY”) utilizing unpledged mortgage-backed securities and certain mortgage loans, the sale of available-for-sale securities and the sale of certain mortgage loans. Net borrowings decreased \$25.0 million, or 65.1%, to \$13.4 million at December 31, 2018, compared to \$38.4 million at March 31, 2018 due to the repayment of a \$25.0 million FHLB long-term borrowing that matured during the first quarter. Due to the late filing of Carver's 2016 Form 10-K (as filed with the Securities and Exchange Commission on August 12, 2016), and the going concern language contained therein, the FHLB-NY notified Carver on July 1, 2016 that it would be restricting Carver's borrowings to 30-day terms. At December 31, 2018, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional \$49.1 million on a secured basis, utilizing mortgage-related loans and securities as collateral.

The Bank's most liquid assets are cash and short-term investments. The level of these assets is dependent on the Bank's operating, investing and financing activities during any given period. At December 31, 2018 and March 31, 2018, assets qualifying for short-term liquidity, including cash and cash equivalents, totaled \$40.1 million and \$134.6 million, respectively.

The most significant potential liquidity challenge the Bank faces is variability in its cash flows as a result of mortgage refinance activity. When mortgage interest rates decline, customers' refinance activities tend to accelerate, causing the cash flow from both the mortgage loan portfolio and the mortgage-backed securities portfolio to accelerate. In contrast, when mortgage interest rates increase, refinance activities tend to slow, causing a reduction of liquidity. However, in a rising rate environment, customers generally tend to prefer fixed rate mortgage loan products over variable rate products. Carver Federal is also at risk of deposit outflows due to a competitive interest rate environment.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During the nine months ended December 31, 2018, total cash and cash equivalents decreased \$94.5 million to \$40.1 million at December 31, 2018, compared to \$134.6 million at March 31, 2018, reflecting cash used in financing activities of \$98.9 million and cash used in operating activities of \$3.5 million, offset by cash provided by investing activities of \$7.9 million. Net cash used in financing activities of \$98.9 million resulted from net decreases in deposits of \$73.9 million and repayment of a \$25.0 million FHLB long-term borrowing that matured on May 30, 2018. The net decrease in deposits was primarily due to a strategic decision to not renew non-relationship institutional certificates of deposits as renewal rates exceeded the earnings rate on the Bank's cash deposit at the Federal Reserve. Net cash provided by investing activities of \$7.9 million was primarily attributable to net loan principal repayments and redemption of the Bank's \$9.2 million investment in a CRA mutual fund. This was partially offset by the purchase of investment securities. Net cash used in operating activities totaled \$3.5 million.

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. In common with all U.S. banks, Carver's capital adequacy is measured in accordance with the Basel III regulatory framework governing capital adequacy, stress testing, and market liquidity risk. The final rule, which became effective for the Bank on January 1, 2015, established a minimum Common Equity Tier 1 (CET1) ratio, a minimum leverage ratio and increases in the Tier 1 and Total risk-based capital ratios. The rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of CET1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 and ends on January 1, 2019, when the full capital conservation buffer requirement will be effective. As of December 31, 2018, the Bank's capital conservation buffer ("buffer") was 1.875%, making its minimum CET1 plus buffer 6.375%, its minimum Tier 1 capital plus buffer 7.875% and its minimum total capital plus buffer 9.875%. Regardless of Basel III's minimum requirements, Carver, as a result of the Formal Agreement, was issued an Individual Minimum Capital Ratio (“IMCR”) letter by the OCC, which requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier1 leverage ratio and 12% for its total risk-based capital ratio.



Edgar Filing: CARVER BANCORP INC - Form 10-Q

The table below presents the capital position of the Bank at December 31, 2018:

(\$ in thousands)	December 31, 2018	
	Amount	Ratio
Tier 1 leverage capital		
Regulatory capital	\$64,144	10.79 %
Individual minimum capital requirement	53,525	9.00 %
Minimum capital requirement	23,789	4.00 %
Excess over individual minimum capital requirement	10,619	1.79 %
Common equity Tier 1		
Regulatory capital	\$64,144	16.00 %
Minimum capital requirement	18,042	4.50 %
Excess	46,102	11.50 %
Tier 1 risk-based capital		
Regulatory capital	\$64,144	16.00 %
Minimum capital requirement	24,056	6.00 %
Excess	40,088	10.00 %
Total risk-based capital		
Regulatory capital	\$69,155	17.25 %
Individual minimum capital requirement	48,111	12.00 %
Minimum capital requirement	32,074	8.00 %
Excess over individual minimum capital requirement	21,044	5.25 %

#### Bank Regulatory Matters

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

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

At December 31, 2018, the Bank's capital level exceeded the regulatory requirements and its IMCR requirements with a Tier 1 leverage capital ratio of 10.79%, Common Equity Tier 1 capital ratio of 16.00%, Tier 1 risk-based capital ratio of 16.00%, and a total risk-based capital ratio of 17.25%.

#### Mortgage Representation and Warranty Liabilities

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

Through fiscal 2011 none of the loans sold to FNMA were repurchased by the Bank. During fiscal 2012, 2013, 2014 and 2015 three, ten, six and one loan, respectively, that had been sold to FNMA were repurchased by the Bank. No loans have

been repurchased by the Bank subsequent to fiscal 2015. At December 31, 2018, the Bank continues to service 111 loans with a principal balance of \$19.3 million for FNMA that had been sold with standard representations and warranties.

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

\$ in thousands	Loans sold to FNMA
Open claims as of March 31, 2018 <sup>(1)</sup>	\$2,013
Gross new demands received	—
Loans repurchased/made whole	—
Demands rescinded	—
Advances on open claims	—
Principal payments received on open claims (23 )	
Open claims as of December 31, 2018 <sup>(1)</sup>	\$1,990

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

Management has established a representation and warranty reserve for losses associated with the repurchase of mortgage loans sold by the Bank to FNMA that we consider to be both probable and reasonably estimable. These reserves are reported in the consolidated statement of financial condition as a component of other liabilities. The Bank has not received a request to repurchase any of these loans since the second quarter of fiscal 2015, and there have not been any additional requests from FNMA for loans to be reviewed. The reserves totaled \$214 thousand as of December 31, 2018. The table below summarizes changes in our representation and warranty reserves during the nine months ended December 31, 2018:

\$ in thousands	December 31, 2018
Representation and warranty repurchase reserve, March 31, 2018 <sup>(1)</sup>	\$ 205
Net provision for repurchase losses <sup>(2)</sup>	9
Representation and warranty repurchase reserve, December 31, 2018 <sup>(1)</sup>	\$ 214

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

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



## Comparison of Financial Condition at December 31, 2018 and March 31, 2018

### Assets

At December 31, 2018, total assets were \$590.4 million, reflecting a decrease of \$103.5 million, or 14.9%, from total assets of \$693.9 million at March 31, 2018. The reduction is primarily attributable to a decrease in cash and cash equivalents of \$94.5 million and a \$50.0 million decrease in the loan portfolio, net of the allowance for loan losses. This was partially offset by a \$41.3 million increase in the Bank's investment portfolio.

Total cash and cash equivalents decreased \$94.5 million, or 70.2%, from \$134.6 million at March 31, 2018 to \$40.1 million at December 31, 2018, primarily due to the strategic management of intended deposit outflows during the period, as the decline in loan demand no longer warranted the maintenance of certain higher cost time deposits. A \$50.3 million decline in the loan portfolio (see below) provided the additional funds required to repay a \$25.0 million FHLB long-term borrowing and to produce a net increase of \$41.3 million in the investment portfolio.

Total investment securities increased \$41.3 million, or 56.7%, to \$114.1 million at December 31, 2018, compared to \$72.8 million at March 31, 2018. The Bank invested \$16.5 million into U.S. Treasury securities and \$40.0 million into agency and mortgage-backed securities in order to improve interest income and to diversify the Bank's available-for-sale investment portfolio. In addition, the Bank redeemed its \$9.2 million investment in a CRA mutual fund during the third quarter.

Gross portfolio loans decreased \$50.3 million, or 10.5%, to \$427.4 million at December 31, 2018, compared to \$477.8 million at March 31, 2018, due primarily to attrition and payoffs of non-owner occupied commercial real estate mortgage loans. The Bank has achieved its strategy of maintaining a concentration level of commercial real estate loans commensurate with its risk perspective.

### Liabilities and Equity

Total liabilities decreased \$99.4 million, or 15.5%, to \$542.5 million at December 31, 2018, compared to \$641.9 million at March 31, 2018, as a result of the Bank's managed decline in deposits and the repayment of borrowed funds.

Deposits decreased \$73.9 million, or 12.6%, to \$513.0 million at December 31, 2018, compared to \$586.9 million at March 31, 2018, due primarily to declines in brokered certificate of deposit accounts. The Company did not actively pursue the retention of certain non-relationship deposits as it has been seeking to reduce its overall level of brokered deposits. Also, balance sheet management called for a lower level of deposits due to weaker loan demand.

Advances from the Federal Home Loan Bank of New York and other borrowed money decreased \$25.0 million, or 65.1%, to \$13.4 million at December 31, 2018, compared to \$38.4 million at March 31, 2018 as the Bank repaid a FHLB long-term borrowing that matured on May 30, 2018.

Total equity decreased \$4.1 million, or 7.8%, to \$47.9 million at December 31, 2018, compared to \$52.0 million at March 31, 2018. The reduction was due to a net loss of \$4.4 million for the nine month period, offset by a \$286 thousand in unrealized losses on securities available-for-sale.

### Asset/Liability Management

The Company's primary earnings source is net interest income, which is affected by changes in the level of interest rates, the relationship between the rates on interest-earning assets and interest-bearing liabilities, the impact of interest rate fluctuations on asset prepayments, the level and composition of deposits and assets, and the credit quality of

earning assets. Management's asset/liability objectives are to maintain a strong, stable net interest margin, to utilize the Company's capital effectively without taking undue risks, to maintain adequate liquidity and to manage its exposure to changes in interest rates.

The economic environment is uncertain regarding future interest rate trends. Management monitors the Company's cumulative gap position, which is the difference between the sensitivity to rate changes of the Company's interest-earning assets and interest-bearing liabilities. In addition, the Company uses various tools to monitor and manage interest rate risk, such as a model that projects net interest income based on increasing or decreasing interest rates.

## Off-Balance Sheet Arrangements and Contractual Obligations

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and in connection with its overall investment strategy. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are not recorded in the consolidated financial statements. Such instruments primarily include lending obligations, including commitments to originate mortgage and consumer loans and to fund unused lines of credit. The Bank also has contractual obligations related to operating leases as discussed in our Form 10-K for the year ended March 31, 2018.

The following table reflects the Bank's outstanding lending commitments and contractual obligations as of December 31, 2018:

\$ in thousands

Commitments to fund mortgage loans	\$2,085
Commitments to fund commercial and consumer loans	30
Lines of credit	3,884
Commitment to fund private equity investment	640
Total	\$6,639

## Comparison of Operating Results for the Three and Nine Months Ended December 31, 2018 and 2017

## Overview

The Company reported a net loss of \$1.3 million for the three months ended December 31, 2018, compared to a net loss of \$944 thousand for the comparable prior year quarter. For the nine months ended December 31, 2018, the Company reported a net loss of \$4.4 million, compared to a net loss of \$2.2 million for the prior year period. The change in our results was primarily driven by lower net interest income and higher net occupancy and equipment expense, partially offset by recoveries of loan losses in the current period compared to a provision for loan loss in the prior year period.

The following table reflects selected operating ratios for the three and nine months ended December 31, 2018 and 2017 (unaudited):

Selected Financial Data:	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Return on average assets <sup>(1)</sup>	(0.91 )%	(0.58 )%	(0.93 )%	(0.44 )%
Return on average stockholders' equity <sup>(2) (8)</sup>	(11.13 )%	(8.08 )%	(11.67 )%	(6.36 )%
Return on average stockholders' equity, excluding AOCI <sup>(2) (8)</sup>	(10.59 )%	(7.80 )%	(11.08 )%	(6.16 )%
Net interest margin <sup>(3)</sup>	2.81 %	2.91 %	2.77 %	3.02 %
Interest rate spread <sup>(4)</sup>	2.58 %	2.76 %	2.54 %	2.88 %
Efficiency ratio <sup>(5)</sup>	130.37 %	115.03 %	127.52 %	110.63 %
Operating expenses to average assets <sup>(6)</sup>	4.77 %	4.24 %	4.47 %	4.11 %
Average stockholders' equity to average assets <sup>(7) (8)</sup>	8.18 %	7.13 %	7.95 %	6.91 %
Average stockholders' equity, excluding AOCI, to average assets <sup>(7) (8)</sup>	8.59 %	7.39 %	8.37 %	7.13 %
Average interest-earning assets to average interest-bearing liabilities	1.24	x 1.19	x 1.23	x 1.19

<sup>(1)</sup>Net income (loss), annualized, divided by average total assets.

<sup>(2)</sup>Net income (loss), annualized, divided by average total stockholders' equity.

<sup>(3)</sup>Net interest income, annualized, divided by average interest-earning assets.

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

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

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

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

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

## Non-GAAP Financial Measures

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

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

\$ in thousands	Three Months Ended		Nine Months Ended		
	December 31,		December 31,		
	2018	2017	2018	2017	
Average Stockholders' Equity	\$48,486	\$46,711	\$50,233	\$45,687	
Average AOCI	(2,465 )	(1,686 )	(2,647 )	(1,474 )	
Average Stockholders' Equity, excluding AOCI	\$50,951	\$48,397	\$52,880	\$47,161	
Return on Average Stockholders' Equity	(11.13 )%	(8.08 )%	(11.67 )%	(6.36 )%	
Return on Average Stockholders' Equity, excluding AOCI	(10.59 )%	(7.80 )%	(11.08 )%	(6.16 )%	
Average Stockholders' Equity to Average Assets	8.18	% 7.13	% 7.95	% 6.91	%
Average Stockholders' Equity, excluding AOCI, to Average Assets	8.59	% 7.39	% 8.37	% 7.13	%

## Analysis of Net Interest Income

The Company's profitability is primarily dependent upon net interest income and is also affected by the provision for loan losses, non-interest income, non-interest expense and income taxes. Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned and paid. The Company's net interest income is significantly impacted by changes in interest rate and market yield curves. Net interest income decreased \$0.6 million, or 12.6%, to \$4.1 million for the three months ended December 31, 2018, compared to \$4.7 million for the same quarter last year. Net interest income decreased \$1.8 million, or 12.3%, to \$12.9 million for the nine months ended December 31, 2018, compared to \$14.7 million for the prior year period.

The following table sets forth certain information relating to the Company's average interest-earning assets and average interest-bearing liabilities, and their related average yields and costs for the three and nine months ended December 31, 2018 and 2017. Average yields are derived by dividing annualized income or expense by the average balances of assets or liabilities, respectively, for the periods shown. Average balances are derived from daily or month-end balances as available and applicable. Management does not believe that the use of average monthly

balances instead of average daily balances represents a material difference in information presented. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yield includes fees, which are considered adjustments to yield.

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	For the Three Months Ended December 31,							
	2018				2017			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
<b>Interest-Earning Assets:</b>								
Loans <sup>(1)</sup>	\$429,763	\$4,640	4.32 %		\$508,977	\$5,471	4.30 %	
Mortgage-backed securities	57,168	386	2.70 %		45,717	238	2.08 %	
Investment securities	50,055	310	2.48 %		12,841	77	2.40 %	
Equity securities <sup>(2)</sup>	3,501	10	1.13 %		2,114	29	5.44 %	
Other investments and federal funds sold	41,714	220	2.09 %		74,285	238	1.27 %	
Total interest-earning assets	582,201	5,566	3.82 %		643,934	6,053	3.76 %	
Non-interest-earning assets	10,807				11,053			
Total assets	\$593,008				\$654,987			
<b>Interest-Bearing Liabilities:</b>								
<b>Deposits</b>								
Interest-bearing checking	\$24,953	\$7	0.11 %		\$24,166	\$4	0.07 %	
Savings and clubs	99,612	66	0.26 %		100,465	61	0.24 %	
Money market	96,301	112	0.46 %		105,606	122	0.46 %	
Certificates of deposit	232,613	1,070	1.82 %		269,052	886	1.31 %	
Mortgagors deposits	2,235	8	1.42 %		2,374	—	— %	
Total deposits	455,714	1,263	1.10 %		501,663	1,073	0.85 %	
Borrowed money	13,403	207	6.13 %		38,729	291	2.98 %	
Total interest-bearing liabilities	469,117	1,470	1.24 %		540,392	1,364	1.00 %	
<b>Non-interest-bearing liabilities</b>								
Demand	59,143				56,832			
Other liabilities	16,262				11,052			
Total liabilities	544,522				608,276			
Stockholders' equity	48,486				46,711			
Total liabilities and equity	\$593,008				\$654,987			
Net interest income		\$4,096				\$4,689		
Average interest rate spread			2.58 %				2.76 %	
Net interest margin			2.81 %				2.91 %	

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

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

Edgar Filing: CARVER BANCORP INC - Form 10-Q

\$ in thousands	For the Nine Months Ended December 31,							
	2018				2017			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
<b>Interest-Earning Assets:</b>								
Loans <sup>(1)</sup>	\$447,111	\$14,757	4.40 %		\$524,133	\$16,920	4.30 %	
Mortgage-backed securities	50,750	897	2.36 %		47,315	733	2.07 %	
Investment securities	42,695	759	2.37 %		13,241	228	2.30 %	
Restricted cash deposit	—	—	0.03 %		93	—	0.03 %	
Equity securities <sup>(2)</sup>	5,198	32	0.82 %		2,219	79	4.73 %	
Other investments and federal funds sold	76,299	1,161	2.02 %		62,477	603	1.28 %	
Total interest-earning assets	622,053	17,606	3.77 %		649,478	18,563	3.81 %	
Non-interest-earning assets	9,659				11,993			
Total assets	\$631,712				\$661,471			
<b>Interest-Bearing Liabilities:</b>								
<b>Deposits</b>								
Interest-bearing checking	\$24,746	\$23	0.12 %		\$26,298	\$12	0.06 %	
Savings and clubs	101,360	200	0.26 %		101,559	184	0.24 %	
Money market	99,175	345	0.46 %		113,699	421	0.49 %	
Certificates of deposit	259,470	3,417	1.75 %		261,854	2,314	1.17 %	
Mortgagors deposits	2,273	28	1.64 %		2,418	30	1.65 %	
Total deposits	487,024	4,013	1.09 %		505,828	2,961	0.78 %	
Borrowed money	18,767	683	4.83 %		40,487	873	2.86 %	
Total interest-bearing liabilities	505,791	4,696	1.23 %		546,315	3,834	0.93 %	
<b>Non-interest-bearing liabilities</b>								
Demand	59,415				56,999			
Other liabilities	16,273				12,470			
Total liabilities	581,479				615,784			
Stockholders' equity	50,233				45,687			
Total liabilities and equity	\$631,712				\$661,471			
Net interest income		\$12,910				\$14,729		
Average interest rate spread			2.54 %				2.88 %	
Net interest margin			2.77 %				3.02 %	

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

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

**Interest Income**

Interest income decreased \$0.5 million, or 8.0%, to \$5.6 million for the three months ended December 31, 2018, compared to \$6.1 million for the prior year quarter. For the nine months ended December 31, 2018, interest income decreased \$1.0 million, or 5.2%, to \$17.6 million compared to \$18.6 million for the prior year period. Interest income on loans decreased \$0.8 million, or 15.2%, for the three months ended December 31, 2018 due to a decrease in average balances in the current period of \$79.2 million. For the nine months ended December 31, 2018, interest income on loans decreased \$2.2 million, or 12.8%, comprised of a decrease of \$2.6 million due to a decrease in



average balances in the current period of \$77.0 million, which was partially offset by a current period increase of \$0.4 million due to a 10 basis-point improvement in the overall yield. The decrease in the average loans outstanding is a result of the Bank's focused efforts to reduce the concentration level of commercial real estate loans during the prior fiscal year. The loss in loan interest income was partially offset by increases in interest on securities due to new investment purchases, and interest on money market investments attributed to interest earned on the Bank's interest-bearing accounts at the Federal Home Loan Bank and the Federal Reserve Bank.

## Interest Expense

Interest expense increased \$0.1 million, or 7.8%, to \$1.5 million for the three months ended December 31, 2018, compared to \$1.4 million for the prior year quarter. For the nine months ended December 31, 2018, interest expense increased \$0.9 million, or 22.5%, to \$4.7 million compared to the prior year period. Interest expense on deposits increased \$0.2 million, or 17.7%, and \$1.1 million, or 35.5%, for the three and nine months ended December 31, 2018, respectively, primarily due to higher rates on certificates of deposit. Interest expense on borrowings decreased from the prior periods despite an increase in the cost to borrow, due to a decrease in average borrowings during the current year-to-date periods.

## Provision for Loan Losses and Asset Quality

The Bank maintains an ALLL that management believes is adequate to absorb inherent and probable losses in its loan portfolio. The adequacy of the ALLL is determined by management's continuous review of the Bank's loan portfolio, including the identification and review of individual problem situations that may affect a borrower's ability to repay. Management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral, current charge-offs and other factors that may affect the portfolio, including a review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio. The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. Any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans.

The Bank's provision for loan loss methodology is consistent with the Interagency Policy Statement on the Allowance for Loan and Lease Losses (the "Interagency Policy Statement") released by the OCC on December 13, 2006. For additional information regarding the Bank's ALLL policy, refer to Note 2 of the Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies" included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

The following table summarizes the activity in the ALLL for the nine month periods ended December 31, 2018 and 2017 and the fiscal year ended March 31, 2018:

\$ in thousands	Nine Months Ended December 31, 2018	Fiscal Year Ended March 31, 2018	Nine Months Ended December 31, 2017
Beginning Balance	5,126	\$5,060	\$5,060
Less: Charge-offs	(1,093 )	(314 )	(211 )
Add: Recoveries	1,047	245	91
(Recovery of) provision for Loan Losses	(278 )	135	130
Ending Balance	\$4,802	\$5,126	\$5,070
<b>Ratios:</b>			
Net (charge-offs) recoveries to average loans outstanding (annualized)	(0.01 )%	(0.01 )%	(0.03 )%
Allowance to total loans	1.12 %	1.07 %	1.02 %
Allowance to non-performing loans	48.43 %	76.94 %	80.41 %

The Company recorded a \$332 thousand recovery of loan loss for the three months ended December 31, 2018, compared to a \$6 thousand provision for loan loss for the prior year quarter. Net recoveries of \$342 thousand were

recognized during the third quarter, compared to net chargeoffs of \$62 thousand for the prior year quarter. For the nine months ended December 31, 2018, the Company recorded a \$278 thousand recovery of loan loss, compared to a \$130 thousand provision for loan loss for the prior year period. Net chargeoffs of \$46 thousand were recognized for the nine months ended December 31, 2018, compared to net chargeoffs of \$120 thousand in the prior year period.

At December 31, 2018, nonaccrual loans totaled \$9.9 million, or 1.7% of total assets, compared to \$6.7 million, or 1.0% of total assets at March 31, 2018. The ALLL was \$4.8 million at December 31, 2018, which represents a ratio of the ALLL to nonaccrual loans of 48.4% compared to a ratio of 76.9% at March 31, 2018. The ratio of the allowance for loan losses to total loans was 1.12% at December 31, 2018, compared to 1.07% at March 31, 2018.

## Non-performing Assets

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

The Bank may from time to time agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). Loans modified in a TDR are placed on nonaccrual status until the Bank determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for a minimum of six months. At December 31, 2018, loans classified as TDR totaled \$5.5 million, of which \$2.3 million were classified as performing. At March 31, 2018, loans classified as TDR totaled \$5.7 million, of which \$3.8 million were classified as performing.

At December 31, 2018, non-performing assets totaled \$10.4 million, or 1.8% of total assets compared to \$7.8 million, or 1.1% of total assets at March 31, 2018. The following table sets forth information with respect to the Bank's non-performing assets at the dates indicated:

	Non Performing Assets					
\$ in thousands	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	
Loans accounted for on a nonaccrual basis <sup>(1)</sup> :						
Gross loans receivable:						
One-to-four family	\$4,508	\$4,709	\$4,809	\$4,561	\$4,598	
Multifamily	2,708	2,328	2,436	964	897	
Commercial real estate	1,233	489	495	502	508	
Business	1,467	1,819	2,132	635	302	
Total nonaccrual loans	9,916	9,345	9,872	6,662	6,305	
Other non-performing assets <sup>(2)</sup> :						
Real estate owned	453	262	552	1,145	1,200	
Loans held-for-sale	—	—	—	—	—	
Total other non-performing assets	453	262	552	1,145	1,200	
Total non-performing assets <sup>(3)</sup>	\$10,369	\$9,607	\$10,424	\$7,807	\$7,505	
Non-performing loans to total loans	2.32	% 2.17	% 2.18	% 1.39	% 1.27	%
Non-performing assets to total assets	1.76	% 1.56	% 1.63	% 1.13	% 1.14	%
Allowance to total loans	1.12	% 1.11	% 1.15	% 1.07	% 1.02	%
Allowance to non-performing loans	48.43	% 51.28	% 52.54	% 76.94	% 80.41	%

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

<sup>(2)</sup> Other non-performing assets generally represent loans that the Bank is in the process of selling and has designated held-for-sale or property acquired by the Bank in settlement of

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

<sup>(3)</sup> Troubled debt restructured loans performing in accordance with their modified terms for less than six months and those not performing in accordance with their modified terms are considered nonaccrual and are included in the nonaccrual category in the table above. At December 31, 2018, there were \$2.3 million TDR loans that have performed in accordance with their modified terms for a period of at least six months. These loans are generally considered performing loans and are not presented in the table above.

#### Subprime Loans

In the past, the Bank originated or purchased a limited amount of subprime loans (which are defined by the Bank as those loans where the borrowers have FICO scores of 660 or less at origination). At December 31, 2018, the Bank had \$5.4 million in subprime loans, or 1.3% of its total loan portfolio, of which \$1.6 million are non-performing loans.

### Non-Interest Income

Non-interest income decreased \$19 thousand, or 1.4%, and increased \$16 thousand, or 0.4%, for the three and nine months ended December 31, 2018, respectively, compared to the prior year periods. Non-interest income for the current period included a higher deferred gain recognized on building sale compared to the prior periods due to the sale of the Bank's Harlem headquarters during fiscal year 2018. This was offset by lower gains on sales of real estate owned recognized: \$0.1 million and \$0.2 million for the three and nine months ended December 31, 2018, respectively, compared to \$0.2 million and \$0.3 million for the prior year periods. For the nine months ended December 31, 2018, loss on investments related to the Bank's investment in the CRA mutual fund totaled \$0.1 million. The Bank recognized a \$27 thousand loss on the redemption of this investment during the third quarter of fiscal 2019. In addition, other non-interest income decreased from the prior year comparative periods due to the exiting of NMTC projects.

### Non-Interest Expense

Non-interest expense increased \$0.1 million, or 1.8%, to \$7.1 million for the three months ended December 31, 2018, compared to \$6.9 million for the prior year quarter. For the nine months ended December 31, 2018, non-interest expense increased \$0.8 million, or 4.0%, to \$21.2 million, compared to \$20.4 million for the prior year period. Net occupancy expense increased \$0.6 million on a year-to-date basis as the Company began making lease payments on its Main Office branch in conjunction with the sale/leaseback of its administrative headquarters in February 2018, in addition to one-time costs associated with the move into its new administrative headquarters. Equipment and data processing costs for the nine month period increased \$0.3 million for the same reasons. In addition, non-interest expense included the recognition of \$0.5 million for a loss related to a wire fraud during the current quarter. Management is pursuing various avenues of recovery, but cannot yet reliably determine the amount of recovery, if any, that can reasonably be expected. Any recoveries realized will be recognized as received. These increases were partially offset by lower employee compensation and benefits and consulting fees compared to the prior year periods.

### Income Tax Expense

For the three months ended December 31, 2018, income tax expense was \$34 thousand, compared to \$31 thousand for the prior year quarter. For the nine months ended December 31, 2018, income tax expense was \$100 thousand, compared to \$91 thousand for the prior year period.

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

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

### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. As of December 31, 2018, the Company's management, including the Company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting Officer), has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of

achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter to which this report relates, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, the Company and the Bank or one of its wholly-owned subsidiaries are parties to various legal proceedings incident to their business. At December 31, 2018, certain claims, suits, complaints and investigations (collectively "proceedings") involving the Company and the Bank or a subsidiary, arising in the ordinary course of business, have been filed or are pending. The Company is unable at this time to determine the ultimate outcome of each proceeding, but believes, after discussions with legal counsel representing the Company and the Bank or the subsidiary in these proceedings, that it has meritorious defenses to each proceeding and appropriate measures have been taken to defend the interests of the Company, Bank or subsidiary. There were no legal proceedings pending or known to be contemplated against us that in the opinion of management, would be expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A - Risk Factors" in our most recent Annual Report on Form 10-K, which could materially affect the Company's business, financial condition, or future operating results. The risks described in this form are not the only risks presently facing the Company. Additional risks and uncertainties not currently known to the Company, or currently deemed to be immaterial, also may materially adversely affect the Company's business, financial condition, and/or operating results. There were no material changes in risk factors in the Company's third quarter ended December 31, 2018.

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

- (a) No unregistered securities were sold by the Company during the quarter ended December 31, 2018.
- (b) Not applicable.
- (c) The Company did not repurchase any of its securities during the quarter ended December 31, 2018.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

### Item 6. Exhibits

The following exhibits are submitted with this report:



3.1 Certificate of  
Incorporation of  
Carver Bancorp, Inc.  
(1)

3.2 Certificate of  
Amendment to the  
Certificate of  
Incorporation of  
Carver Bancorp, Inc.  
(2)

3.3 Second Amended  
and Restated Bylaws  
of Carver Bancorp,  
Inc. (3)

4.1 Stock Certificate of  
Carver Bancorp,  
Inc. (1)

4.2 Certificate of  
Designations of  
Mandatorily  
Convertible  
Non-Voting  
Participating  
Preferred Stock,  
Series C, and  
Convertible  
Non-Cumulative  
Non-Voting  
Participating  
Preferred Stock,  
Series D (4)

4.3 Form of Stockholder  
Rights Agreement,  
dated June 29, 2011,  
by and between the  
Company and  
certain purchasers (4)

4.4 Exchange  
Agreement, dated  
June 29, 2011, by  
and between the  
Company and the  
United States  
Department of the  
Treasury (4)

31.1 Certification of  
Chief Executive  
Officer pursuant to  
Rule  
13a-14(a)/15d-14(a)

- Certification of  
Chief Financial  
Officer pursuant to  
Rule  
13a-14(a)/15d-14(a)  
Certification of  
Chief Executive  
Officer furnished  
pursuant to Section  
32.1 906 of the  
Sarbanes-Oxley Act  
of 2002, 18 U.S.C.  
1350  
Certification of  
Chief Financial  
Officer furnished  
pursuant to Section  
32.2 906 of the  
Sarbanes-Oxley Act  
of 2002, 18 U.S.C.  
1350
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, formatted in XBRL (Extensive Business Reporting Language): (i) Consolidated Statements of Financial Condition as of December 31, 2018 (unaudited) and March 31, 2018; (ii) Consolidated Statements of Operations for the three and nine months ended December 31, 2018 and 2017 (unaudited); (iii) Consolidated Statements of Comprehensive Loss for the three and nine months ended December 31, 2018

and 2017  
(unaudited); (iv)  
Consolidated  
Statements of  
Changes in Equity  
for the nine months  
ended December 31,  
2018 and 2017  
(unaudited); (v)  
Consolidated  
Statements of Cash  
Flows for the nine  
months ended  
December 31, 2018  
and 2017  
(unaudited); and (vi)  
Notes to  
Consolidated  
Financial  
Statements.

- Incorporated herein  
by reference from  
the Exhibits to the  
Form S-4,  
Registration  
(1) Statement and  
amendments thereto,  
initially filed on  
June 7, 1996,  
Registration No.  
333-5559.  
Incorporated herein  
by reference from  
the Exhibits to the  
Company's Current  
(2) Report on Form 8-K  
filed with the  
Securities and  
Exchange  
Commission on  
November 1, 2011.  
Incorporated herein  
by reference from  
the Exhibits to the  
(3) Company's Annual  
Report on Form  
10-K for the fiscal  
year ended March  
31, 2006.  
(4)

Incorporated by  
reference to the  
Exhibits to the  
Company's Current  
Report on Form 8-K  
filed with the  
Securities and  
Exchange  
Commission on July  
6, 2011.

SIGNATURES

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

CARVER BANCORP, INC.

Date: February 14, 2019 /s/ Michael T. Pugh

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

Date: February 14, 2019 /s/ Christina L. Maier

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