CARVER BANCORP INC
Form 10-K
June 29, 2015

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

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

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

For the fiscal year ended March 31, 2015
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 Incorporation or Organization)	(I.R.S. Employer 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
Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

As of March 31, 2015 there were 3,696,087 shares of common stock of the Registrant outstanding. The aggregate market value of the Registrant's common stock held by non-affiliates, as of September 30, 2014 (based on the closing sales price of $9.11 per share of the registrant's common stock on September 30, 2014) was approximately $33,671,353.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of registrant's proxy statement for the Annual Meeting of Stockholders for the fiscal year ended March 31, 2015 are incorporated by reference into Part III of this Form 10-K.

CARVER BANCORP, INC.
2015 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 which may be identified by the use of such words as “may,” “believe,” “expect,” “anticipate,” “should,” “plan,” “estimate,” “predict,” “continue,” and “potential” or the negative of these terms or other compar terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to Carver Bancorp, Inc.'s (the "Company") 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 Company to comply with its regulatory order, and the effect on operations resulting from restrictions set forth in such regulatory order;
- 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 value);
- changes in our existing loan portfolio composition (including increases in commercial lending) and credit quality or changes in loan loss requirements;
- changes in the level of trends of delinquencies and write-offs and in our allowance and provision for loan losses;
- legislative or regulatory changes that may adversely affect the Company’s business, including but not limited to the impact of the Dodd-Frank Wall Street Reform, the JOBS Act, the Consumer Protection Act and new capital regulations, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements, regulatory fees and compliance costs, and the resources we have available to address such changes;
- changes in the level of government support of housing finance;
- the Company’s success in implementing new business initiatives, including expanding its product line, adding new branches and ATM centers and successfully building its brand image;
- our ability to control costs and expenses;
- risks related to a high concentration of loans to borrowers secured by property located in our market area;
- changes in interest rates, which may reduce net interest margin and net interest income;

- increases in competitive pressure among financial institutions or non-financial institutions;
- 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, 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 Annual Report on Form 10-K are made as of the date of this Annual Report on Form 10-K, and the Company assumes no obligation to, and expressly disclaims any obligation to, update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements, except as legally required. For a discussion of additional factors that could adversely affect the Company's future performance, see “Item 1A - Risk Factors” and “Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.”

PART I

ITEM 1. BUSINESS.

OVERVIEW

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

Carver Federal is the largest African-American operated bank in the United States. The Bank remains dedicated to expanding wealth enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank's third consecutive "Outstanding" rating, issued by the OCC following its most recent Community Reinvestment Act ("CRA") examination in December 2012. As of December 2012, approximately 78% of newly originated 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 $676.4 million in assets and employed 129 employees as of March 31, 2015.

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

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

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

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

The Bank formalized its many community focused investments on August 18, 2005, by forming Carver Community Development Corporation ("CCDC"). CCDC oversees the Bank's participation in local economic development and other community-based initiatives, including financial literacy activities. CCDC coordinates the Bank's development of an innovative approach to reach the unbanked customer market in Carver Federal's communities. Importantly, CCDC spearheads the Bank's applications for grants and other resources to help fund these important community activities. In this connection, Carver Federal has successfully competed with large regional and global financial institutions in a number of competitions for government grants and other awards. 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 New Markets Tax Credits ("NMTC"). CCDC won a second NMTC award of $65 million in May 2009, and a third award of $25 million in August 2011. The NMTC award is used to stimulate economic development in low- to moderate-income communities. The NMTC awards enable the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating revitalization of the community, pursuant to the goals of the NMTC program. 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. As of March 31, 2015, all three award allocations have been fully utilized in qualifying projects. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" and footnotes to the financial statements for additional details on the NMTC activities.

GENERAL

Carver Bancorp, Inc.

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

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

Carver Federal Savings Bank

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

On March 8, 1995, Carver Federal formed CFSB Realty Corp. as a wholly owned subsidiary to hold real estate acquired through foreclosure pending eventual disposition. At March 31, 2015, this subsidiary had $2.1 million in total assets. During the fourth quarter of the fiscal year ended March 31, 2003, Carver Federal formed Carver Asset Corporation (“CAC”), a wholly owned subsidiary which qualifies as a real estate investment trust (“REIT”) pursuant to the Internal Revenue Code of 1986, as amended. This subsidiary may, among other things, be utilized by Carver Federal to raise capital in the future. As of March 31, 2015, CAC owned mortgage loans carried at approximately $27.0 million and total assets of $129.2 million. On August 18, 2005, Carver Federal formed CCDC, a wholly owned community development entity, to facilitate and develop innovative approaches to financial literacy, address the needs of the unbanked and participate in local economic development and other community-based activities. As part of its operations, CCDC monitors the portfolio of investments related to NMTC awards and makes application for additional awards.

Carver Statutory Trust I

Carver Statutory Trust (the "Trust") was formed in 2003 for the purpose of issuing $13.0 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 ("Capital Securities") and $0.4 million of common securities, which are wholly owned by Carver Bancorp, Inc. and the sole voting securities of the Trust. The Company has fully and unconditionally guaranteed the Capital Securities along with all obligations of the Trust under the trust agreement relating to the Capital Securities. The Trust is not consolidated with the Company for financial reporting purposes in accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") regarding the consolidation of variable interest entities

(formerly FIN 46(R)). Under the Company's regulatory orders, the Company was prohibited from paying dividends without prior approval from the Office of the Comptroller of the Currency ("OCC"). Therefore, the Company has deferred the debenture interest payments on the prior subordinated debentures and the Trust has deferred distribution payments on the Capital Securities. The OCC lifted its order and determined the Bank is no longer in troubled condition, effective November 3, 2014. The Company has requested approval from the Federal Reserve to reinstate the debenture interest payment. As of March 31, 2015, the request remains pending.
Recapitalization Transaction
On June 29, 2011, the Company completed a private placement of 55,000 shares of the Company's Mandatorily Convertible Non-Voting Participating Preferred Stock, Series C (the "Series C Preferred Stock") to several institutional investors (the "Investors") for an aggregate purchase price of $55.0 million, with net proceeds of approximately $51.4 million.
Effective October 28, 2011, the Series C Preferred Stock converted into:

- an aggregate of 1,208,039 shares of Common Stock, at a conversion price of $8.1765 (which reflects the 1-for-15 reverse stock split that was effective as of October 27, 2011); and
- an aggregate of 45,118 shares of the Company's Convertible Non-Cumulative Non-Voting Participating Preferred Stock, Series D (the "Series D Preferred Stock"), at a ratio of 1:1.

In connection with the private placement, the Company entered into an Exchange Agreement (the "Exchange Agreement") with the U.S. Department of Treasury (the Treasury Department), pursuant to which the Treasury Department agreed to exchange the 18,980 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock") that it held for shares of Common Stock at the same conversion price applicable to the conversion of the Series C Preferred Stock (the "Exchange"). The Exchange was effective October 28, 2011, and the Series B Preferred Stock was exchanged for 2,321,286 shares of Common Stock.

In connection with the private placement and the Exchange, the Company held a meeting of its stockholders on October 25, 2011, at which the stockholders approved the conversion of the Series C Preferred Stock into shares of Series D Preferred Stock and Common Stock; the issuance of the Series D Preferred Stock; the subsequent conversion of the Series D Preferred Stock into shares of Common Stock in the event of certain transfers; the exchange of the Series B Preferred Stock for Common Stock; and an amendment of the Company's certificate of incorporation that permits the Treasury Department to vote shares of Common Stock that it holds in excess of 10% of the Company's outstanding Common Stock. In addition, the stockholders approved a 1-for-15 reverse stock split pursuant to which each 15 shares of the Company's Common Stock would be converted into one share of Common Stock. The 1-for-15 reverse stock split was effective as of October 27, 2011, resulting in a reduction in the number of outstanding shares of the Company's Common Stock from 2,510,238 to 166,975, an increase of the conversion price of the Series C Preferred Stock and the Series D Preferred Stock and the exchange ratio of the Series B Preferred Stock from $0.5451 to $8.1765, and a corresponding decrease in the number of shares of Common Stock issued to the Investors and the Treasury Department.

Personnel

At fiscal year end 2015, the Company had 129 employees. None of the Company's employees are a member of a collective bargaining agreement.

Available Information

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

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

Lending Activities

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

In recent years, Carver Federal has focused on the origination of commercial real estate loans and multifamily residential loans. These loans generally have higher yields and shorter maturities than one-to-four family residential properties, and include prepayment penalties that the Bank collects if the loans pay in full prior to the contractual maturity. The Bank's increased emphasis on portfolio management and monitoring of the commercial real estate and multifamily residential mortgage loans was required given the increase of the overall level of credit risk inherent in this market segment. Due to the overall improvement in the loan portfolio, the Bank has been able to recover provision for loan losses in years 2013 to 2015. However, the greater risk associated with commercial real estate and multifamily residential loans may require the Bank to increase its provisions for loan losses and could require the Bank to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance currently maintained. Carver Federal continually reviews the composition of its mortgage loan portfolio and underwriting standards to manage the risk in the portfolio.

Loan Portfolio Composition. Total loans receivable increased $91.6 million, or 23.5%, to $481.5 million at March 31, 2015 compared to $389.8 million at March 31, 2014. Carver Federal's total loans receivable as a percentage of total assets increased to 71.2% at March 31, 2015 compared to 60.9% at March 31, 2014. Commercial real estate loans totaled $186.4 million, or 38.7% of total loans receivable at March 31, 2015 compared to $198.8 million, or 51.0% of total loans receivable at March 31, 2014; one-to-four family mortgage loans totaled $125.0 million, or 26.0% of total loans receivable at March 31, 2015 compared to $111.2 million, or 28.5% at March 31, 2014; multifamily loans totaled $93.8 million, or 19.5% of total loans receivable at March 31, 2015 compared to $47.4 million, or 12.2% at March 31, 2014; business loans totaled $70.7 million, or 14.7% of total loans receivable at March 31, 2015 compared to $27.1 million, or 7.0% at March 31, 2014; construction loans at March 31, 2015 and March 31, 2014 (net of committed but undisbursed funds), totaled $5.1 million, or 1.1% and 1.3%, respectively, of total loans receivable; and consumer loans (credit card loans, personal loans, and home improvement loans) totaled $434 thousand or 0.09% of total loans receivable at March 31, 2015, compared to $138 thousand, or 0.04% at March 31, 2014.

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

	March 31, 2015		March 31, 2014		March 31, 2013		March 31, 2012		March 31, 2011	
$ in thousands	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Gross loans receivable:										
One-to-four family	$125,020	26.0 %	$111,220	28.5 %	$73,625	19.8 %	$66,313	16.0 %	$82,061	14.1 %
Multifamily	93,780	19.5	47,399	12.2	56,427	15.2	78,859	19.0	123,791	21.3
Commercial real estate	186,443	38.7	198,808	51.0	203,813	54.9	207,505	50.0	243,786	41.9
Construction	5,107	1.1	5,100	1.3	1,228	0.3	16,471	4.0	78,055	13.4
Business	70,679	14.7	27,149	7.0	35,795	9.6	44,424	10.7	53,248	9.1
Consumer and other [1]	434	0.1	138	—	247	0.1	1,258	0.3	1,349	0.2
Total loans receivable	$481,463	100.0%	$389,814	100.0%	$371,135	100.0%	414,830	100.0%	582,290	100.0%
Add:										
Premium on loans	2,233		957		728		137		120	
Less:										
Deferred fees and loan discounts, net	(503)		(815)		(1,741)		(2,109)		(2,107)	
Allowance for loan losses	(4,477)		(7,233)		(10,989)		(19,821)		(23,147)	
Total loans receivable, net	$478,716		$382,723		$359,133		$393,037		$557,156	

[1] Includes personal loans

One-to-four Family Residential Lending. Carver Federal originates and purchases first mortgage loans secured by one-to-four family properties that serve as the primary residence of the owner. In fiscal 2015, the Bank purchased $26.1 million one-to-four family loans compared to $55.5 million purchased in fiscal 2014. To a much lesser degree, the Bank has made loans to investors that are secured by non-owner occupied one-to-four family properties. Approximately 15.3% of the one-to-four family residential mortgage loans maturing in greater than one year at March 31, 2015 were adjustable rate and approximately 84.7% were fixed-rate. One-to-four family residential real estate loans increased $13.8 million, or 12.4%, to $125.0 million at March 31, 2015 compared to $111.2 million at March 31, 2014.

Carver Federal's fixed-rate, one-to-four family residential mortgage loans are underwritten in accordance with applicable secondary market underwriting guidelines and requirements for sale. From time to time, the Bank has sold such loans to Fannie Mae, the State of New York Mortgage Agency (“SONYMA”) and other third parties. Loans are generally sold with limited recourse on a servicing retained basis except to SONYMA where the sale is made with servicing released. Carver Federal uses a servicing firm to sub-service mortgage loans, whether held in portfolio or sold with servicing retained. At March 31, 2015, the Bank, through its sub-servicer, serviced $27.5 million in loans for FNMA and $2.9 million for other third parties. The Bank has recorded $210 thousand in related mortgage servicing rights.

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

The Bank previously originated or purchased a limited amount of subprime loans (which are defined as those loans which have FICO scores of 660 or less). At March 31, 2015, the Bank had $9.5 million in subprime loans, or 2.0%, of its total loan portfolio of which $959 thousand are non-performing loans.

Multifamily Real Estate Lending. Traditionally, Carver Federal originates and purchases multifamily loans. Multifamily property lending entails additional risks compared to one-to-four family residential lending. For example, such loans are dependent on the successful operation of such buildings and can be significantly impacted by supply and demand conditions in the market for multifamily residential units. Carver Federal's multifamily real estate loan portfolio increased $46.4 million, or 97.9%, to $93.8 million in fiscal 2015, or 19.5% of Carver Federal's total loan portfolio at March 31, 2015.

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

To help ensure continued collateral protection and asset quality for the term of multifamily real estate loans, Carver Federal employs a risk rating system for its loans. All commercial loans, including multifamily real estate loans, are risk rated internally at the time of origination. Management continually monitors all commercial loans in order to update risk ratings when necessary (see Asset Classification and Allowance for Loan and Lease Losses for additional information on asset classification and risk ratings). In addition, to assist the Bank in evaluating changes in the credit profile of the borrower and the underlying collateral, an independent consulting firm reviews and prepares a written report for a sample of commercial loan relationships. On a quarterly basis: i) all new/renewed loans greater than $500,000, ii) a sampling of loans $100,000 to $999,999, and iii) all criticized and classified loans, are reviewed. In addition, on an annual basis, all loans greater than $500,000 and a sampling of loans $100,000 to $499,999 are reviewed. Summary reports documenting the loan reviews are then reviewed by management for changes in the credit profile of individual borrowers and the portfolio as a whole.

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

In making commercial real estate loans, the Bank primarily considers the ability of the net operating income generated by the real estate to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and the Bank's lending experience with the borrower. Carver Federal's maximum loan-to-value (“LTV”) ratio on commercial real estate mortgage loans at origination is generally 75% based on the latest appraised value of the mortgaged property. The Bank generally requires a debt service coverage ratio (“DSCR”) at origination of at least 1.25 on commercial real estate loans. The Bank also requires the assignment of rents of all tenants' leases in the mortgaged property and personal guarantees may be obtained for additional security from these borrowers.

At March 31, 2015, commercial real estate mortgage loans totaled $186.4 million, or 38.7% of the total loan portfolio. This balance reflects a year-over-year decrease of $12.4 million, or 6.2%.

The Bank offers adjustable rate mortgage (“ARM”) loans with interest rate adjustment periods of one to five years and generally for terms of up to 15 years and amortization schedules up to 30 years. Interest rates on ARM loans currently offered by the Bank are adjusted at the beginning of each adjustment period and generally are based upon a fixed spread above the FHLB-NY corresponding regular advance rate. From time to time, the Bank may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Commercial adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan.

Historically, Carver Federal has been a New York City metropolitan area leader in the origination of loans to churches. At March 31, 2015, loans to churches totaled $13.5 million, or 2.8% of the Bank's gross loan portfolio. These loans generally have five-, seven-, or ten-year terms with 15-, 20- or 25-year amortization periods, a balloon payment due at the end of the term and generally have no greater than a 70% LTV ratio at origination. The Bank has also provided construction financing for churches and generally provides permanent financing upon completion of construction. There are currently 18 church loans in the Bank's loan portfolio.

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

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

Construction financing generally is considered to involve a higher degree of risk of loss than long-term financing on improved and occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the mortgaged property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in project delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with a project having a value that is insufficient to assure full repayment of such loan. The ability of a developer to sell completed dwelling units will depend on, among other things, demand, pricing, availability of comparable properties and economic conditions. During fiscal 2012, the Bank sought to minimize this risk by limiting construction lending to experienced borrowers in the Bank's market areas, limiting the aggregate amount of outstanding construction loans and imposing a stricter LTV ratio requirement than that required for one-to-four family mortgage loans.

At March 31, 2015, the Bank had $5.1 million in construction loans outstanding, comprising 1.1% of the Bank's gross loan portfolio.

Business Loans. Carver Federal's small business lending portfolio increased $43.5 million to $70.7 million, or 14.7%, of the Bank's gross loan portfolio in fiscal 2015. Carver Federal provides revolving credit and term loan facilities to small businesses with annual sales of approximately $1 million to $25 million in manufacturing, services and wholesale segments. Business loans are typically personally guaranteed by the owners and may also be secured by additional collateral, including real estate, equipment and inventory.

Consumer and other Loans. At March 31, 2015, the Bank had $434 thousand in consumer and other loans, or 0.09%, of the Bank's gross loan portfolio, primarily made up of unsecured loans, consisting of consumer loans, other than loans secured by savings deposits.

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

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

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

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

It is Carver Federal's policy to record a lien on the real estate securing the loan and to obtain a title insurance policy that insures that the property is free of prior encumbrances. Borrowers must also obtain hazard insurance policies prior to closing and, when the property is in a flood plain as designated by the Department of Housing and Urban Development, obtain flood insurance. Most borrowers are also required to advance funds on a monthly basis, together with each payment of principal and interest, to a mortgage escrow account from which the Bank makes disbursements for items such as real estate taxes and hazard insurance. Written confirmation of the guarantee for SBA loans and evidence of the UCC filing is also required.

Loan Approval. Except for real estate and business loans in excess of $6.0 million and $3.0 million, respectively, mortgage and business loan approval authority has been delegated by the Bank's Board to the Board's Asset Liability and Interest Rate Risk Committee. The Asset Liability and Interest Rate Risk Committee has delegated to the Bank's Management Loan Committee, which consists of certain members of executive management, loan approval authority for loans up to and including $3.0 million for real estate loans and $1.0 million for all other business loans. Real estate and business loans above $6.0 million and $3.0 million, respectively, must be approved by the full Board. Purchased loans are subject to the same approval process as originated loans. One-to-four family mortgage loans that conform to FNMA, FHA and Federal Home Loan Mortgage Corporation (FHLMC), standards and limits may be approved by the outsourced third party loan originator. Under the Bank's Orders (see "Regulation and Supervision" section in Item 1), the Bank was restricted from originating new CRE loans without prior regulatory approval. On December 28, 2011, the OCC provided the Bank's Board, or a committee of the Board, authority to approve origination of CRE loans under certain conditions, which includes a certification that the extension of credit is in the best interest of the Bank.

Loans-to-One-Borrower. Under the loans-to-one-borrower limits of the OCC, with certain limited exceptions, loans and extensions of credit to a single or related group of borrowers outstanding at one time generally may not exceed 15% of the unimpaired capital and surplus of a savings bank. See "Regulation and Supervision-Federal Banking Regulation-Loans-to-One-Borrower Limitations." At March 31, 2015, the maximum loans-to-one-borrower under this test is $11.3 million and the Bank had no relationships that exceeded this limit.

Loan Originations and Purchases. Loan originations, including loans originated for sale, were $66.0 million in fiscal 2015 compared to $68.5 million in fiscal 2014. The Bank purchased $85.9 million in loans during fiscal year 2015 compared to $55.7 million during fiscal year 2014.

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

10

$ in thousands	2015 Amount	Percent	2014 Amount	Percent	2013 Amount	Percent
Loans Originated:						
One-to-four family	$141	0.1 %	$240	0.2 %	$1,130	2.7 %
Multifamily	3,433	2.3 %	8,693	7.0 %	—	— %
Commercial real estate	52,305	34.4 %	47,957	38.6 %	21,130	49.6 %
Construction	—	— %	5,100	4.1 %	—	— %
Business	10,091	6.6 %	5,796	4.7 %	5,764	13.5 %
Consumer and others (1)	—	— %	664	0.5 %	8	— %
Total loans originated	65,970	43.4 %	68,450	55.1 %	28,032	65.8 %
Loans purchased (2)	85,873	56.6 %	55,689	44.9 %	14,533	34.1 %
Total loans originated and purchased	151,843	100 %	124,139	100 %	42,565	100 %
Loans sold (3)	—		(20,788)		(27,306)	
Net additions to loan portfolio	$151,843		$103,351		$15,259	

(1) Comprised of personal loans.

(2) Comprised of one-to-four family residential, commercial real estate, multifamily mortgage loans and business loans with a net book value of $85.7 million purchased from a third party and $129 thousand repurchased from FNMA.

(3) Comprised of primarily one-to-four family mortgage loans and commercial loans in 2014 and construction and commercial real estate loans in 2013.

Loans purchased by the Bank entail certain risks not necessarily associated with loans the Bank originates. The Bank's purchased loans are generally acquired without recourse, with certain exceptions related to the seller's compliance with representations and warranties, and in accordance with the Bank's underwriting criteria for originations. In addition, purchased loans have a variety of terms, including maturities, interest rate caps and indices for adjustment of interest rates, that may differ from those offered at that time by the Bank. The Bank initially seeks to purchase loans in its market area. However, the Bank may purchase loans secured by property outside its market area to meet its financial objectives. The market areas in which the properties that secure the purchased loans are located may differ from Carver Federal's market area and may be subject to economic and real estate market conditions that may significantly differ from those experienced in Carver Federal's market area. There can be no assurance that economic conditions in these out-of-state markets will not deteriorate in the future, resulting in increased loan delinquencies and loan losses among the loans secured by property in these areas.

In an effort to reduce risks, the Bank has sought to ensure that purchased loans satisfy the Bank's underwriting standards and do not otherwise have a higher risk of collection or loss than loans originated by the Bank. A review of each loan is conducted prior to purchase, and the Bank also requires appropriate documentation and further seeks to reduce its risk by requiring, in each buy/sell agreement, a series of warranties and representations as to the underwriting standards and the enforceability of the related legal documents. These warranties and representations remain in effect for the life of the loan. Any misrepresentation must be cured within 90 days of discovery or trigger certain repurchase provisions in the buy/sell agreement.

Loan Maturity Schedule. The following table sets forth information at March 31, 2015 regarding the amount of loans maturing in Carver Federal's portfolio, including scheduled repayments of principal, based on contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The table below does not include any estimate of prepayments, which significantly shorten the average life of all mortgage loans and may cause Carver Federal's actual repayment experience to differ significantly from that shown below:

Loan Maturities

$ in thousands	<1 Yr.	1-5 Yrs.	5-20+ Yrs.	Total

Gross loans receivable:				
One-to-four family	$327	$4,840	$119,853	$125,020
Multifamily	5,562	46,105	42,113	93,780
Commercial real estate	12,285	96,785	77,373	186,443
Construction	—	5,107	—	5,107
Business	10,525	28,142	32,012	70,679
Consumer	402	28	4	434
Total	$29,101	$181,007	$271,355	$481,463

The following table sets forth as of March 31, 2015, amounts in each loan category that are contractually due after March 31, 2015 and whether such loans have fixed or adjustable interest rates. Scheduled contractual principal repayments of loans do not necessarily reflect the actual lives of such assets. The average life of long-term loans is substantially less than their contractual terms due to prepayments. In addition, due-on-sale clauses in mortgage loans generally give Carver Federal the right to declare a conventional loan due and payable in the event, among other things, that a borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan market rates are higher than rates on existing mortgage loans and tends to decrease when current mortgage loan market rates are lower than rates on existing mortgage loans:

	Due After March 31, 2015		
$ in thousands	Fixed	Adjustable	Total
Gross loans receivable:			
One-to-four family	$105,614	$19,079	$124,693
Multifamily	78,149	10,069	88,218
Commercial real estate	156,941	17,217	174,158
Construction	5,107	—	5,107
Business	41,561	18,593	60,154
Consumer	32	—	32
Total	$387,404	$64,958	$452,362

Asset Quality

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

The underlying credit quality of the Bank's loan portfolio is dependent primarily on each borrower's ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the adequacy of the value of the collateral securing the loan. For non-owner occupied non-residential real estate and multifamily real estate loans, the borrower's ability to pay typically is dependent on rental income, which can be impacted primarily by vacancies and general market conditions. For one-to-four family loans, a borrowers' ability to pay typically is dependent primarily on employment and other sources of income. For owner occupied non-residential real estate, a borrower's ability to pay typically is dependent primarily on the success of the borrower's business. For all of the Bank's loans, a borrower's ability to pay is also impacted by general economic and other factors, such as unanticipated expenditures or changes in the financial markets. Collateral values, particularly real estate values, are also impacted by a variety of factors, including general economic conditions, demographics, maintenance and collection or foreclosure delays.

Non-performing Assets. Non-performing assets consist of 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 Small Business Administration (“SBA”). Loans that remain delinquent are reviewed for reserve provisions and charge-off. The Bank's collection efforts continue after the loan is charged off, except when a determination is made that collection efforts have been exhausted or are not productive.

The Bank may from time to time agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (“TDR”). Loans modified in a 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 March 31, 2015, loans classified as a troubled debt restructuring totaled $10.2 million, of which $6.6 million were classified as performing.

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

$ in thousands	2015	2014	2013	2012	2011
Loans accounted for on a nonaccrual basis [1]:					
Gross loans receivable:					
One-to-four family	$3,664	$2,301	$7,642	$6,988	$15,993
Multifamily	1,053	2,240	423	2,923	6,786
Commercial real estate	2,817	7,024	14,788	24,467	10,078
Construction	—	—	1,230	11,325	37,218
Business	861	993	6,505	8,862	7,289
Consumer	—	1	38	23	42
Total nonaccrual loans	8,395	12,559	30,626	54,588	77,406
Other non-performing assets [2]					
Real estate owned	4,341	1,369	2,386	2,183	564
Loans held-for-sale	2,576	5,011	13,107	29,626	9,205
Total other non-performing assets	6,917	6,380	15,493	31,809	9,769
Total non-performing assets [3]	$15,312	$18,939	$46,119	$86,397	$87,175
Accruing loans contractually past due > 90 days [4]	$—	$—	$—	$—	$—
Non-performing loans to total loans	1.74 %	3.22 %	8.27 %	13.22 %	13.34 %
Non-performing assets to total assets	2.26 %	2.96 %	7.23 %	13.47 %	12.29 %

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

(2) Other non-performing assets generally represent loans that the Bank is in the process of selling and has designated held-for-sale or property acquired by the Bank in settlement of loans less costs to sell (i.e. through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value.

(3) Troubled debt restructured loans performing in accordance with their modified terms for less than six months and those not performing in accordance with their modified terms are considered nonaccrual and are included in the nonaccrual category in the table above. TDR loans included in the nonaccrual category above totaled $3.6 million at 2015, $3.0 million at 2014, $16.7 million at 2013, $21 million at 2012, and $23.8 million at 2011. TDR loans that have performed in accordance with their modified terms for a period of at least six months are generally considered performing loans and are not presented in the table above. Performing TDR loans were $4.6 million at 2015, $6.3 million at 2014, $5 million at 2013, $3.5 million at 2012, and $442 thousand at 2011.

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

At March 31, 2015, total non-performing assets decreased by $3.6 million, or 19.2%, to $15.3 million, compared to $18.9 million at March 31, 2014 as a result of a decrease in nonaccrual loans, year over year. Nonaccrual loans at March 31, 2015 consist of nineteen one-to-four family loans, eight consumer loans, five multifamily loans, five commercial real estate loans and five small business and SBA loans. The decrease in delinquent loans from the prior year is primarily the result of stabilized, if not improved, economic conditions and Carver's proactive approach to addressing and managing delinquencies. Management believes that there may be losses associated with certain delinquent loans in the future, but also notes that the amount of losses will be reduced by the increased value of properties securing these delinquent loans and the Bank's loan loss reserves. Other non-performing assets at year-end

2015 includes a portfolio of loans held-for sale and real estate owned assets consisting of nine properties foreclosed upon. At March 31, 2015, Carver had 11 loans secured by one-to-four family residential real estate in the process of foreclosure for a total outstanding balance of $1.9 million.

Although we believe that substantially all risk elements at March 31, 2015 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. For additional information about certain factors that my affect the future performance of the Company's loan portfolio, please see "Item 1A - Risk Factors" and "Forward Looking Statements."

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

The OCC, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses and lease losses ("ALLL"). The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the ability to collect the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Management is responsible for determining the adequacy of the allowance for loan losses and the periodic provisioning for estimated losses included in the consolidated financial statements. The evaluation process is undertaken on a quarterly basis, but may increase in frequency should conditions arise that would require management's prompt attention, such as business combinations and opportunities to dispose of non-performing and marginally performing loans by bulk sale or any development which may indicate an adverse trend. Although management believes that adequate specific and general loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may become necessary. Federal examiners may disagree with a savings institution as to the appropriate level of the institution's allowance for loan losses. While management believes Carver Federal has established its existing loss allowances in accordance with the ALLL policy, there can be no assurance that regulators, in reviewing Carver Federal's assets, will not require Carver Federal to increase its loss allowance, thereby negatively affecting Carver Federal's reported financial condition and results of operations. For additional information regarding Carver Federal's ALLL policy, refer to Note 2 of Notes to Consolidated Financial Statements, “Summary of Significant Accounting Policies.”

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

It is management's policy to maintain a general allowance for loan losses based on, among other things, regular reviews of delinquencies and loan portfolio quality, character and size, the Bank's and the industry's historical and projected loss experience and current and forecasted economic conditions and certain qualitative factors. In addition, considerable uncertainty exists as to the future improvement or deterioration of the real estate market. See “Lending

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

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

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

$ in thousands	2015	2014	2013	2012	2011
Balance at beginning of year	$7,233	$10,989	$19,821	$23,147	$12,000
Less Charge-offs:					
One-to-four family	687	2,887	2,103	3,730	827
Multifamily	—	98	226	6,250	5,821
Commercial real estate	—	574	1,148	5,111	798
Construction	—	—	151	5,961	5,607
Business	320	965	2,274	875	2,958
Consumer and other	281	16	1	8	8
Total Charge-offs	$1,288	$4,540	$5,903	$21,935	$16,019
Add Recoveries:					
One-to-four family	380	534	15	469	2
Multifamily	83	31	91	6	—
Commercial real estate	256	—	—	2	2
Construction	—	149	22	1,677	4
Business	816	486	265	113	27
Consumer and other	9	10	5	—	17
Total Recoveries	$1,544	$1,210	$398	$2,267	$52
Net loans (recovered) charged-off	(256)	3,330	5,505	19,668	15,967
Provision for (recovery of) losses	(3,010)	(426)	(3,327)	16,342	27,114
Balance at end of year	$4,479	$7,233	$10,989	$19,821	$23,147
Ratios:					
Net (recoveries) charge-offs to average loans outstanding	(0.06)%	0.86%	1.35%	3.74%	2.54%
Allowance to total loans	0.93%	1.85%	2.97%	4.80%	3.99%
Allowance to non-performing loans	53.35%	57.59%	35.88%	36.31%	29.90%

The following table allocates the allowance for loan losses by asset category at March 31:

	2015		2014		2013		2012		2011	
$ in thousands	Amount	% of Loans to Total Gross Loans	Amount	% of Loans to Total Gross Loans	Amount	% of Loans to Total Gross Loans	Amount	% of Loans to Total Gross Loans	Amount	% of Loans to Total Gross Loans
	$1,989	44.4%	$3,377	46.7%	$3,496	31.8%	$4,305	21.7%	$2,923	12.6%

One-to-four family															
Multifamily	534	11.9	%	308	4.3	%	409	3.7	%	5,409	27.3	%	6,223	26.9	%
Commercial real estate	1,029	23.0	%	1,835	25.4	%	3,297	30.0	%	6,709	33.8	%	3,999	17.3	%
Construction	99	2.2	%	—	—	%	—	—	%	1,532	7.7	%	6,944	30.0	%
Business	813	18.2	%	1,705	23.6	%	3,759	34.2	%	1,786	9.0	%	2,965	12.8	%
Consumer and other	13	0.3	%	8	0.1	%	28	0.3	%	80	0.4	%	93	0.4	%
Total Allowance	$4,477	100	%	$7,233	100	%	$10,989	100	%	$19,821	100	%	$23,147	100	%

15

The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

Investment Activities

General. 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. Securities are classified into one of three categories: trading, held-to-maturity, and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in earnings. Debt securities for which the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. All other securities not classified as trading or held-to-maturity are classified as available-for-sale and reported at fair value with unrealized gains and losses included, on an after-tax basis, in a separate component of stockholders' equity. At March 31, 2015, the Bank had no securities classified as trading. At March 31, 2015, $101.2 million, or 89.5% of the Bank's mortgage-backed and other investment securities, were classified as available-for-sale. The remaining $11.9 million, or 10.5%, were classified as held-to-maturity.

Mortgage-Backed Securities. The Bank has invested in mortgage-backed securities to help achieve its asset/liability management goals and collateral needs. Although mortgage-backed securities generally yield less than whole loans, they present substantially lower credit risk, are more liquid than individual mortgage loans and may be used to collateralize obligations of the Bank. Because Carver Federal receives regular payments of principal and interest from its mortgage-backed securities, these investments provide more consistent cash flows than investments in other debt securities, which generally only pay principal at maturity. Mortgage-backed securities also help the Bank meet certain definitional tests for favorable treatment under federal banking and tax laws. See “Regulation and Supervision-Federal Banking Regulation-Qualified Thrift Lender Test” and “Federal and State Taxation.”

Mortgage-backed securities constituted 5.7% of total assets at March 31, 2015 and 2014. Carver Federal maintains a portfolio of mortgage-backed securities in the form of Government National Mortgage Association (“GNMA”) pass-through certificates, Federal National Mortgage Association (“FNMA”), Federal Home Loan Mortgage Corp (“FHLMC”) participation certificates and commercial mortgage-backed securities. GNMA pass-through certificates are guaranteed as to the payment of principal and interest by the full faith and credit of the United States Government, while FNMA and FHLMC certificates are each guaranteed by their respective agencies as to principal and interest. Mortgage-backed securities generally entitle Carver Federal to receive a prorata portion of the cash flows from an identified pool of mortgages. The cash flows from such pools are segmented and paid in accordance with a predetermined priority to various classes of securities issued by the entity. Carver Federal has also invested in pools of loans guaranteed as to principal and interest by the Small Business Administration (“SBA”).

The Bank seeks to manage interest rate risk by investing in adjustable-rate mortgage-backed securities, which at March 31, 2015, constituted $3.6 million, or 9.2%, of the mortgage-backed securities portfolio. Mortgage-backed securities, however, expose Carver Federal to certain unique risks. In a declining rate environment, accelerated prepayments of loans underlying these securities expose Carver Federal to the risk that it will be unable to obtain comparable yields upon reinvestment of the proceeds. In the event the mortgage-backed security has been funded with an interest-bearing liability with maturity comparable to the original estimated life of the mortgage-backed security, the Bank's interest rate spread could be adversely affected. Conversely, in a rising interest rate environment, the Bank may experience a lower than estimated rate of repayment on the underlying mortgages, effectively extending the estimated life of the mortgage-backed security and exposing the Bank to the risk that it may be required to fund the asset with a liability bearing a higher rate of interest. For additional information regarding Carver Federal's mortgage-backed securities portfolio and its maturities refer to Note 3 of Notes to Consolidated Financial Statements, “Investment Securities.”

Other Investment Securities. In addition to mortgage-backed securities, the Bank also invests in high quality assets such as government and agency obligations, corporate bonds and mutual funds. Carver Federal is permitted under federal law to make certain investments, including investments in securities issued by various federal agencies and state and municipal governments, deposits at the FHLB-NY, certificates of deposit in federally insured institutions, certain bankers' acceptances and federal funds. The Bank may also invest, subject to certain limitations, in commercial paper having one of the two highest investment ratings of a nationally recognized credit rating agency, and certain other types of corporate debt securities and mutual funds (See Note 3 of Notes to Consolidated Financial Statements).

Other Earning Assets. Federal regulations require the Bank to maintain an investment in FHLB-NY stock and a sufficient amount of liquid assets which may be invested in cash and specified securities. For additional information, see "Regulation and Supervision-Federal Banking Regulation-Liquidity."

Securities Impairment. The Bank's available-for-sale securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income (loss). Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The fair values of securities in the Bank's 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. Following FASB guidance, the amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the 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. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). 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. As of fiscal year end 2015 and 2014, the Bank does not have any securities that are classified as having other than temporary impairment in its investment portfolio.

Sources of Funds

General. Deposits are the primary source of Carver Federal's funds for lending and other investment purposes. In addition to deposits, Carver Federal derives funds from loan principal repayments, loan and investment interest payments, maturing investments and fee income. Loan and mortgage-backed securities repayments and interest payments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by prevailing market interest rates, pricing of deposits, competition and general economic conditions. Borrowed money may be used to supplement the Bank's available funds, and from time to time the Bank borrows funds from the FHLB-NY and has borrowed funds through trust preferred debt securities.

Deposits. Carver Federal attracts deposits from consumers, businesses, non-profit organizations and public entities through its ten branches principally from within its market area by offering a variety of deposit instruments, including passbook and statement accounts and certificates of deposit, which range in term from 91 days to five years. Deposit terms vary, principally on the basis of the minimum balance required, the length of time the funds must remain on deposit and the interest rate. Carver Federal also offers Individual Retirement Accounts. Carver Federal's policies are designed primarily to attract deposits from local residents and businesses through the Bank's branches. Carver Federal also holds deposits from various governmental agencies or authorities and corporations.

As of March 31, 2015 the Bank has $38.7 million of reciprocal deposits acquired through its participation in the Certificate of Deposit Account Registry Service ("CDARS"). The CDARS network arranges for placement of Carver Federal's customer funds into certificate of deposit accounts issued by other CDARS member banks. The certificate of deposit accounts are in increments of less than the individual FDIC insurance limit amount, to ensure that both principal and interest are eligible for full FDIC deposit insurance. This allows the Bank to maintain its customer relationship while still providing its customers with FDIC insurance for the full amount of their deposits, up to $50 million per customer. In exchange, Carver Federal receives from other member banks their customers' deposits in like amounts. Depositors are allowed to withdraw funds early, with a penalty, from these accounts. Carver Federal may elect to participate in the program by making or receiving deposits without making or receiving a reciprocal deposit. Prior to the Emergency Economic Stabilization Act of 2008 ("ESSA"), the FDIC deposit insurance limit was $100,000.

As a result of ESSA, this limit was increased to $250,000 through December 31, 2013. On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, which, in part, permanently raised the standard maximum deposit insurance amount to $250,000.

Deposit interest rates, maturities, service fees and withdrawal penalties on deposits are established based on the Bank's funds acquisition and liquidity requirements, the rates paid by the Bank's competitors, current market rates, the Bank's growth goals and applicable regulatory restrictions and requirements. For additional information regarding the Bank's deposit accounts and the related weighted average interest rates paid, and amount and maturities of certificates of deposit in specified weighted average interest rate categories, refer to Note 7 of the Notes to Consolidated Financial Statements, "Deposits."

Borrowed Funds. While deposits are the primary source of funds for Carver Federal's lending, investment and general operating activities, Carver Federal is authorized to use advances from the FHLB-NY and securities sold under agreements to repurchase ("Repos") from approved primary dealers to supplement its supply of funds and to meet deposit withdrawal requirements. The FHLB-NY functions as a central bank providing credit for savings institutions and certain other member financial institutions. As a member of the FHLB system, Carver Federal is required to own stock in the FHLB-NY and is authorized to apply for advances. Advances are made pursuant to several different programs, each of which has its own interest rate and range of maturities. Advances from the FHLB-NY are secured by Carver Federal's stock in the FHLB-NY and a pledge of Carver Federal's mortgage loan and mortgage-backed and agency securities portfolios. The Bank takes into consideration the term of borrowed money with the repricing cycle of the mortgage loans on the balance sheet. At March 31, 2015, Carver had $65.0 million in FHLB-NY advances outstanding.

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 were $13.0 million and, together with the proceeds from the sale of the trust's common securities, 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 quarterly at the option of the Company 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 (reset quarterly) equal to 3.05% over 3-month LIBOR, with a rate at March 31, 2015 of 3.32%. Under the Company's regulatory orders, the Company is prohibited from paying dividends without prior regulatory approval. Therefore the Company has deferred the debenture interest payments and the Trust has deferred distributing the Capital Securities. The Company has requested approval from the Federal Reserve to reinstate the debenture interest payment. As of March 31, 2015, the request remains pending.

REGULATION AND SUPERVISION

Cease and Desist Orders

On February 7, 2011, the Company and the Bank consented to the Office of Thrift Supervision ("OTS") issuing a Bank Order and a Company Order to Cease and Desist (collectively, the “Orders”) against the Company and Bank. Effective July 21, 2011, supervisory authority for the Company and Bank Orders passed to the Board of Governors of the Federal Reserve System (“FRB”) and the Office of the Comptroller of the Currency ("OCC"), respectively. The OCC lifted and removed the C&D Order applicable to the Bank on November 3, 2014 and further determined that the Bank is no longer in "troubled condition" as defined by Section 914 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The C&D Order applicable to the Company (the "FRB C&D Order") under the authority of the FRB remains in effect. The Company has taken actions toward compliance but no assurances can be given that the Company will be able to comply with all provisions of the FRB C&D Order. Failure to comply could result in further regulatory actions and possible civil money penalties to be assessed by the FRB.

The FRB C&D Order requires, among other things, the Company to notify and receive the FRB’s written permission prior to (i) declaring, making or paying any dividends or other capital distributions, or repurchasing or redeeming any capital stock; (ii) incurring, issuing, renewing, repurchasing or rolling over any debt, increasing any current lines of credit or guaranteeing the debt of any entity; (iii) making certain changes to its directors or senior executive officers; (v) entering into, renewing, extending or revising any contractual arrangement related to compensation or benefits with any of its directors or senior executive officers; and (vi) making any golden parachute payments or prohibited indemnification payments. The foregoing description of the FRB C&D Order is qualified in its entirety by reference to the Order issued to the Company. For additional information regarding the Order, please see the Form 8-K filed with the SEC on February 10, 2011.

As stated above, under the FRB C&D Order, the Company is prohibited from paying any dividends without prior regulatory approval. On October 18, 2011, the Company received approval from the Federal Reserve to pay all outstanding dividend payments on the Company's fixed-rate cumulative perpetual preferred stock issued under the

Capital Purchase Program of the Treasury. These payments were made in connection with the Treasury, on October 28, 2011, exchanging the CDCI Series B preferred stock for 2,321,286 shares of Company common stock.

General

The Bank is subject to extensive regulation, examination and supervision by its primary regulator, the OCC. The Bank's deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund ("DIF"), and is a member of the FHLB. The Bank must file reports with the OCC concerning its activities and financial condition, and it must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The Company, as a unitary savings and loan holding company, is subject to regulation, examination and supervision by the FRB and is required to file certain reports with, and otherwise comply with, the rules and regulations of the FRB and of the SEC under the federal securities laws. The OCC and the FDIC periodically perform safety and soundness examinations of the Bank and test compliance with various regulatory requirements. The OCC has primary enforcement responsibility over federally chartered savings banks and has substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements. In addition, the FDIC has the authority to recommend to the Director of the OCC that enforcement action be taken with respect to a particular federally chartered savings bank and, if action is not taken by the Director, the FDIC has authority to take such action under certain circumstances.

The description of statutory provisions and regulations applicable to federally chartered savings banks and their holding companies and of tax matters set forth in this document does not purport to be a complete description of all such statutes and regulations and their effects on the Bank and the Company. Any change in such laws and regulations whether by the OCC, the FDIC, the FRB or through legislation could have a material adverse impact on the Bank and the Company and their operations and stockholders.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act') made extensive changes in the regulation of federal savings banks. Under the Dodd-Frank Act, the OTS was merged into the OCC. Responsibility for the supervision and regulation of federal savings banks was transferred to the OCC, which is the agency that was primarily responsible for the regulation and supervision of national banks. The OCC assumed responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings banks. The transfer of regulatory functions took place on July 21, 2011. At the same time, responsibility for the regulation and supervision of savings and loan holding companies was transferred to the FRB, which previously only supervised bank holding companies. Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the FRB. The Consumer Financial Protection Bureau assumes responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have authority to impose new requirements. However, institutions of less than $10 billion in assets, such as Carver Federal Savings Bank, FSB, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau.

In addition to eliminating the OTS and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, required changes in the way that institutions were assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires that originators of securitized loans retain a percentage of the risk for the transferred loans, directed the FRB to regulate pricing of certain debit card interchange fees, reduced the federal preemption afforded to federal savings associations and contained a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act contained delayed effective dates and/or required the issuance of regulations. As a result, it will be some time before their impact on operations can be assessed by management. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in an increased regulatory burden and higher compliance, operating, and possibly, interest costs for the Bank and the Company.

Capital and Liquidity

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is authorized and, in some cases, required to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank would be placed in one of the following five categories based on the bank's regulatory capital: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized.

The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as a bank's capital decreases within the three undercapitalized categories. All banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized. Generally, a capital restoration plan must be filed with the OCC within 45 days of the date a bank receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion. Under OCC regulations, as amended effective January 1, 2015, a federally chartered savings bank is treated as well-capitalized if its total risk based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 8% or greater, its common equity Tier 1 capital ratio is 6.5% or greater, and its leverage ratio is 5% or greater, and it is not subject to any order or directive by the OCC to meet a specific capital level. In assessing an institution's capital adequacy, the OCC takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions as they deem necessary.

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, required that the OCC and other federal banking agencies revise their risk-based capital standards, with appropriate transition rules, to ensure that they take into account IRR concentration of risk and the risks of non-traditional activities. The OCC regulations do not include a specific IRR component of the risk-based capital requirement. However, the OCC monitors the IRR of individual institutions through a variety of means, including an analysis of the change in net portfolio value ("NPV"). NPV is defined as the net present value of the expected future cash flows of an entity's assets and liabilities and, therefore, hypothetically represents the value of an institution's net worth. The OCC has also used this NPV analysis as part of its evaluation of certain applications or notices submitted by thrift institutions. In addition, OCC Bulletin 2010-1 provides guidance on the management of IRR and the responsibility of boards of directors in that area. The OCC, through its general oversight of the safety and soundness of savings associations, retains the right to impose minimum capital requirements on individual institutions to the extent the institution is not in compliance with certain written guidelines established by the OCC regarding NPV analysis. As discussed below, the OCC has imposed such requirements on Carver Federal.

Carver Federal's Capital Position. Carver Federal, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed minimum requirements and that are consistent with Carver Federal's risk profile. At March 31, 2015, Carver Federal exceeded the capital requirements with a common equity Tier 1 ratio of 15.10%, a Tier 1 leverage ratio of 10.85%, total risk-based capital ratio of 16.78% and a Tier 1 risk-based capital ratio of 15.10%. The OCC has determined that Carver Federal is adequately capitalized.

The OCC and the other federal bank regulatory agencies issued a final rule effective January 1, 2015 that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Carver Federal has chosen to opt-out. Additional constraints are also imposed on the inclusion in regulatory capital of certain mortgage-servicing assets, defined tax assets and minority interests. The rule limits a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. As noted, the final rule became effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. The final rule adjusted the prompt corrective action categories described above to incorporate the increased capital standards and established the "well-capitalized" threshold described above.

Limitation on Capital Distributions. There are various restrictions on a bank's ability to make capital distributions, including cash dividends, payments to repurchase or otherwise acquire its shares and other distributions charged against capital. A savings institution that is the subsidiary of a savings and loan holding company, such as the Bank, must file a notice with the FRB at least 30 days before making a capital distribution. The Bank must also file an application for prior approval with the OCC if the total amount of its capital distributions (including each proposed distribution), for the applicable calendar year would exceed the Bank's net income for that year plus the Bank's retained net income for the previous two years.

The Bank may not pay dividends to the Company if, after paying those dividends, the Bank would fail to meet the required minimum levels under risk-based capital guidelines and the minimum leverage and tangible capital ratio requirements or the OCC notified the Bank that it was in need of more than normal supervision.

The Bank is prohibited from making capital distributions if:

(1) the Bank would be undercapitalized following the distribution;

(2) the proposed capital distribution raises safety and soundness concerns; or

(3) the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

Liquidity. The Bank maintains liquidity levels to meet operational needs. In the normal course of business, the levels of liquid assets during any given period are dependent on operating, investing and financing activities. Cash and due from banks, federal funds sold and repurchase agreements with maturities of three months or less are the Bank's most liquid assets. The Bank maintains a liquidity policy to maintain sufficient liquidity to ensure its safe and sound operations.

Standards for Safety and Soundness

Standards for Safety and Soundness. The OCC has adopted guidelines prescribing safety and soundness standards. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. OCC regulations authorize the OCC to order an institution that has been given notice that it is not satisfying these safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement an accepted compliance plan, the OCC must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized association is subject under the “prompt corrective action” provisions of federal law. If an institution fails to comply with such an order, the OCC may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Enforcement. The OCC has primary enforcement responsibility over the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices.

TARP

The Emergency Economic Stabilization Act of 2008 (“EESA”) was signed into law on October 3, 2008 and authorizes the U.S. Department of the Treasury (“Treasury”) to establish the Troubled Asset Relief Program (“TARP”) to purchase certain troubled assets from financial institutions, including banks and thrifts. Under the TARP, the Treasury may purchase residential and commercial mortgages, and securities, obligations or other instruments based on such mortgages, originated or issued on or before March 14, 2008 that the Secretary of the Treasury determines promotes market stability, as well as any other financial instrument that the Treasury, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, or FRB, determines the purchase of which is necessary to promote market stability. In the case of a publicly-traded financial institution that sells troubled assets into the TARP, the Treasury must receive a warrant giving the Treasury the right to receive nonvoting common stock or preferred stock in such financial institution, or voting stock with respect to which the Treasury agrees not to exercise voting power, subject to certain de minimis exceptions. In addition, all financial institutions that sell troubled assets to the TARP and meet certain conditions will also be subject to certain executive compensation restrictions, which differ depending on how the troubled assets are acquired under the TARP.

On October 14, 2008, the Treasury announced that it would purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the "TARP CPP"), the Treasury made $250 billion of capital available (from the $700 billion authorized by the EESA) to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions are required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP CPP. On January 20, 2009, the Company announced that it completed the sale of $18.98 million in preferred stock to the Treasury in connection with Carver's participation in the TARP CPP. Importantly, Carver is exempt from the requirement to issue a warrant to the Treasury to purchase shares of common stock, as the Bank is a certified Community Development Financial Institution (“CDFI”) conducting most of its depository and lending activities in disadvantaged communities. Therefore, the investment did not dilute common stockholders. As a participant in TARP CPP, the Company was subject to certain obligations currently in effect, such as compensation restrictions, a luxury expenditure policy, the requirement the Company include a “say on pay” proposal in the proxy statement and certain certifications. The Company was also subject to additional restrictions or obligations as may be imposed under TARP CPP for as long as the Company participates in TARP CPP.

The Treasury announced in February 2010 the implementation of the Community Development Capital Initiative (“CDCI”). This new capital program invested lower cost capital in CDFIs that lend to small businesses in the country's most economically depressed communities. CDFI banks and thrifts are eligible to receive investments of capital with an initial dividend rate of 2%, compared to the 5% rate offered under the CPP. CDFIs may apply to receive capital up to 5% of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate increased to 9% after eight years, compared to five years under TARP preferred stock. On August 27, 2010, Carver completed with the Treasury the exchange of the $18.98 million of TARP preferred stock for an equivalent amount of CDCI Series B preferred stock. As stated above, on October 28, 2011, the U.S. Treasury exchanged the CDCI Series B preferred stock for 2,321,286 shares of Company common stock.

Other Supervision and Regulation

Activity Powers. The Bank derives its lending and investment powers from the Home Owners' Loan Act ("HOLA"), as amended, and federal regulations. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities and certain other assets. The Bank may also establish service corporations that may engage in certain activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage. The Bank's authority to invest in certain types of loans or other investments is limited by federal law. These investment powers are subject to various limitations, including (1) a prohibition against the acquisition of any corporate debt security that is not rated in one of the four highest rating categories, (2) a limit of 400% of an association's capital on the aggregate amount of loans secured by non-residential real estate property, (3) a limit of 20% of an association's assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans, (4) a limit of 35% of an association's assets on the aggregate amount of consumer loans and acquisitions of certain debt securities, (5) a limit of 5% of assets on non-conforming loans (loans in excess of the specific limitations of HOLA), and (6) a limit of the greater of 5% of assets or an association's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property.

On October 4, 2006, the OCC and other federal bank regulatory authorities published the Interagency Guidance on Nontraditional Mortgage Product Risks, or the Guidance. The Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among other things, interest-only loans. The Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Guidance indicates that originating interest-only loans with reduced documentation is considered a layering of risk and that institutions are expected to demonstrate mitigating factors to support their underwriting decision and the borrower's repayment capacity. Specifically, the Guidance indicates that a lender should be able to readily document income and a lender may accept a borrower's statement as to the borrower's income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity.

On December 14, 2006, the OTS published guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," or the CRE Guidance, to address concentrations of commercial real estate loans in savings associations. The CRE Guidance reinforces and enhances the OCC's existing regulations and guidelines for real estate lending and loan portfolio management, but does not establish specific commercial real estate lending limits. The Bank has evaluated the CRE Guidance to determine its compliance and, as necessary, modified its risk management practices, underwriting guidelines and consumer protection standards. See "Lending Activities and Asset Quality" in Item 1, "Business" for discussions of Carver Federal's loan product offerings and related underwriting standards.

On June 29, 2007, the OCC and other federal bank regulatory agencies issued a final Statement on Subprime Mortgage Lending, or the Statement, to address the growing concerns facing the subprime mortgage market, particularly with respect to rapidly rising subprime default rates that may indicate borrowers do not have the ability to repay adjustable rate subprime loans originated by financial institutions. In particular, the agencies expressed concern in the Statement that current underwriting practices do not take into account that many subprime borrowers are not prepared for "payment shock" and that the current subprime lending practices compound risk for financial institutions. The Statement describes the prudent safety and soundness and consumer protection standards that financial institutions should follow to ensure borrowers obtain loans that they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including an expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower's repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow for a reasonable period of time, typically at least 60 days, for borrowers to refinance prior to the expiration of the initial fixed interest rate period without penalty. The Statement also reinforces the April 17, 2007 Interagency Statement on Working with Mortgage Borrowers, in which the federal bank regulatory agencies encouraged institutions to work constructively with residential borrowers who are financially unable or reasonably expected to be unable to meet their contractual payment obligations on their home loans. In addition, the Statement referenced expanded guidance issued by the agencies by press release dated January 31, 2001. According to the expanded guidance, subprime loans are loans to borrowers which display one or more characteristics of reduced payment capacity. Five specific criteria, which are not intended to be exhaustive and are not meant to define specific parameters for all subprime borrowers and may not match all markets or institutions' specific subprime definitions, are set forth, including having a FICO credit score of 660 or below at the time of origination. Within the Bank's loan portfolio, there are loans to borrowers who had FICO scores of 660 or below at the time of origination. However, as a portfolio lender, the Bank reviews all data contained in borrower credit reports and does not base underwriting decisions solely on FICO scores. The Bank believes the aforementioned loans, when made, were amply collateralized and otherwise conformed to the Bank's prime lending standards. These loans are not a material component of the one-to-four family mortgage loan portfolio.

Carver Federal has evaluated the Guidance, the CRE Guidance and the Statement to determine compliance and, as necessary, modified risk management practices, underwriting guidelines and consumer protection standards. See “Lending Activities - One-to-Four Family Mortgage Lending and Multifamily and Commercial Real Estate Lending” for a discussion of the Bank's loan product offerings and related underwriting standards and “Asset Quality” in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” for information regarding the Bank's interest-only and reduced documentation loan portfolio composition.

Loans-to-One Borrower Limitations. The Bank is generally subject to the same limits on loans-to-one borrower as a national bank. With specified exceptions, the Bank's total loans or extension of credit to a single borrower or group of related borrowers may not exceed 15% of the Bank's unimpaired capital and unimpaired surplus, which does not include accumulated other comprehensive income. The Bank may lend additional amounts up to 10% of its unimpaired capital and unimpaired surplus if the loans or extensions of credit are fully secured by readily marketable collateral. The Bank currently complies with applicable loans-to-one borrower limitations. At March 31, 2015, the Bank's limit on loans-to-one borrower based on its unimpaired capital and surplus was $11.3 million.

Qualified Thrift Lender Test. Under HOLA, the Bank must comply with a Qualified Thrift Lender (“QTL”) test. Under this test, the Bank is required to maintain at least 65% of its “portfolio assets” in certain “qualified thrift investments” on a monthly basis in at least nine months of the most recent twelve-month period. “Portfolio assets” means, in general, an association's total assets less the sum of (a) specified liquid assets up to 20% of total assets, (b) goodwill and other intangible assets and (c) the value of property used to conduct the Bank's business. “Qualified thrift investments” include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities and consumer loans. If the Bank fails the QTL test, it must operate under certain restrictions on its activities. The Dodd-Frank Act made noncompliance potentially subject to agency enforcement action for violation of law. At March 31, 2015, the Bank maintained approximately 96.1% of its portfolio assets in qualified thrift investments. The Bank had also met the QTL test in each of the prior 12 months and was, therefore, a qualified thrift lender.

Branching. Subject to certain limitations, federal law permits the Bank to establish branches in any state of the United States. The authority for the Bank to establish an interstate branch network would facilitate a geographic diversification of the Bank's activities. This authority under federal law and regulations preempts any state law purporting to regulate branching by federal savings associations.

Community Reinvestment. Under CRA, as amended, as implemented by OCC regulations, the Bank has a continuing and affirmative obligation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. CRA does not establish specific lending requirements or programs for the Bank nor does it limit the Bank's discretion to develop the types of products and services that it believes are best suited to its particular community. CRA does, however, require the OCC, in connection with its examination of the Bank, to assess the Bank's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the Bank.

In particular, the system focuses on three tests:

(1) a lending test, to evaluate the institution's record of making loans in its assessment areas;

(2) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses; and

(3) a service test, to evaluate the institution's delivery of banking services through its branches, ATM centers and other offices.

CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received an "Outstanding" CRA rating in its most recent examination conducted in December 2012.

Regulations require that Carver Federal publicly disclose certain agreements that are in fulfillment of CRA. The Company has no such agreements in place at this time.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by federal regulations and by Sections 23A, 23B of the Federal Reserve Act ("FRA"). In general, these transactions must be on terms which are as favorable to the Bank as comparable transactions with non-affiliates. Additionally, certain types of these transactions are restricted to an aggregate percentage of the Bank's capital. Collateral in specified amounts must usually be provided by affiliates to receive loans from the Bank. In addition, OCC regulations prohibit a savings bank from lending to any of its affiliates that is engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to its directors, executive officers, and 10% shareholders ("insiders"), as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (a) be made on terms that are substantially the same as and follow credit underwriting procedures that are not less stringent than those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (b) not exceed certain limitations, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's Board. At March 31, 2015, the Bank had one Regulation O loan of $1.5 million to a director.

Assessment. The OCC charges assessments to recover the cost of examining savings associations and their affiliates. These assessments are based on three components: the size of the association, on which the basic assessment is based; the association's supervisory condition, which results in an additional assessment based on a percentage of the basic assessment for any savings institution with a composite rating of 3, 4, or 5 in its most recent safety and soundness examination; and the complexity of the association's operations, which results in an additional assessment based on a percentage of the basic assessment for any savings association that managed over $1 billion in trust assets, serviced for others loans aggregating more than $1 billion, or had certain off-balance sheet assets aggregating more than $1 billion. For fiscal 2015, Carver paid $329 thousand in regulatory assessments.

Insurance of Deposit Accounts

The FDIC merged the Savings Association Insurance Fund and the Bank Insurance Fund to create the Depositors Insurance Fund (“DIF”) on March 31, 2006. The Bank is a member of the DIF and pays its deposit insurance assessments to the DIF.

Effective January 1, 2007, the FDIC established a new risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under this assessment system, the FDIC assigned an institution to one of four risk categories, with the first category having two sub-categories, based on the institution's most recent supervisory ratings and capital ratios. Base assessment rates ranged from two to four basis points of insured deposits for Risk Category I institutions and were seven basis points for Risk Category II institutions, twenty-five basis points for Risk Category III institutions and forty basis points for Risk Category IV institutions. Base assessment rates were then subject to adjustment based on certain risk factors specified by the FDIC.

The Dodd-Frank Act required the Federal Deposit Insurance Corporation to revise its procedures to base its assessments upon total assets less tangible equity instead of deposits. The FDIC finalized a rule that implemented that change effective April 1, 2011. Among other things, the final rule changed the assessment range (inclusive of potential adjustments) to 2.5 basis points to 45 basis points depending upon the institution's risk category and the applicable adjustments. The Bank's expense for FDIC insurance payments totaled $1.2 million in fiscal year 2015.

The FDIC has authority to further increase insurance assessments and therefore management cannot predict what insurance assessment rates will be in the future. A significant increase in insurance premiums may have an adverse effect on the operating expenses and results of operations of the Bank.

Anti-Money Laundering and Customer Identification

The Bank is subject to federal regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA PATRIOT Act”). The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the United States Commodity Exchange Act of 1936, as amended.

Title III of the USA PATRIOT Act and the related federal regulations impose the following requirements with respect to financial institutions:

• Perform a risk assessment and establishment of a Board approved policy;

24

- Designate a qualified BSA officer;
- Establish an effective training program;
- Establish anti-money laundering programs;
- Establish a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time;
- Establish enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and
- Prohibit correspondent accounts for foreign shell banks and compliance with record keeping obligations with respect to correspondent accounts of foreign banks

In addition, bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on certain corporate applications.

Federal Home Loan Bank System

The Bank is a member of the FHLB-NY, which is one of the twelve regional banks composing the FHLB System. Each regional bank provides a central credit facility primarily for its member institutions. The Bank, as a FHLB-NY member, is required to acquire and hold shares of capital stock in the FHLB-NY in specified amounts. The Bank was in compliance with this requirement with an investment in the capital stock of the FHLB-NY at March 31, 2015 of $3.5 million. Any advances from the FHLB-NY must be secured by specified types of collateral, and all long term advances may be obtained only for the purpose of providing funds for residential housing finance.

FHLB-NY is required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of earnings that the FHLB-NY can pay as dividends to its members and could also result in the FHLB-NY imposing a higher rate of interest on advances to its members. If dividends were reduced, or interest on future FHLB-NY advances increased, the Bank's net interest income would be adversely affected. Dividends from FHLB-NY to the Bank amounted to $88 thousand, $93 thousand and $140 thousand for fiscal years 2015, 2014 and 2013, respectively. The dividend rate paid on FHLB-NY stock at March 31, 2015 was 4.0%.

Under the Gramm-Leach-Bliley Act, as amended (“GLB”), which, among other things, repealed historical restrictions and eliminated many federal and state law barriers to affiliations among banks and securities firms, insurance companies and other financial service providers, membership in the FHLB system is now voluntary for all federally chartered savings banks such as the Bank. GLB also replaced the existing redeemable stock structure of the FHLB system with a capital structure that required each FHLB to meet a leverage limit and a risk-based permanent capital requirement. Two classes of stock are authorized: Class A (redeemable on six months notice) and Class B (redeemable on five years notice). Pursuant to regulations promulgated by the Federal Housing Finance Board, as required by GLB, the FHLB has adopted a capital plan that changed the foregoing minimum stock ownership requirements for FHLB stock. Under the new capital plan, each member of the FHLB has to maintain a minimum investment in FHLB capital stock in an amount equal to the sum of; (1) the greater of $1,000 or 0.20% of the member's mortgage-related assets, and (2) 4.50% of the dollar amount of any outstanding advances under such member's "Advances, Collateral Pledge and Security Agreement" with the FHLB-NY.

Federal Reserve System

FRB regulations require federally chartered savings associations to maintain non-interest-earning cash reserves against their transaction accounts (primarily interest-bearing checking and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between $14.5 million and $103.6 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB between 8% and 14%) against that portion of total transaction accounts in excess of $103.6 million. The first $14.5 million of otherwise reservable balances (subject to adjustment by the FRB) is exempt from the reserve requirements. The Bank is in compliance with the foregoing requirements. Since required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce Carver Federal's interest-earning assets. FHLB System members are also authorized to borrow from the Federal Reserve "discount window," but FRB regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Privacy Protection

Carver Federal is subject to OCC regulations implementing the privacy protection provisions of GLB. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "nonpublic personal information" to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require the Bank to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not exempted, the Bank is required to provide its customers with the ability to opt-out of having the Bank share their nonpublic personal information with unaffiliated third parties before they can disclose such information, subject to certain exceptions.

The Bank is subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of GLB. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to insure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer. The Bank has a policy to comply with the foregoing guidelines.

Holding Company Regulation

The Company is a savings and loan holding company regulated by the FRB. As such, the Company is registered with and subject to FRB examination and supervision, as well as certain reporting requirements. The FRB has enforcement authority over the Company and its subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of a subsidiary savings institution.

GLB restricts the powers of new unitary savings and loan holding companies. Unitary savings and loan holding companies that are "grandfathered," i.e., unitary savings and loan holding companies in existence or with applications filed with the regulator on or before May 4, 1999, such as the Company, retain their authority under the prior law. All other unitary savings and loan holding companies are limited to financially related activities permissible for financial holding companies and certain other activities specified by FRB regulations. GLB also prohibits nonfinancial companies from acquiring grandfathered unitary savings and loan holding companies.

Restrictions Applicable to All Savings and Loan Holding Companies. Federal law prohibits a savings and loan holding company, including the Company, directly or indirectly, from acquiring:

(1) control (as defined under HOLA) of another savings institution (or a holding company parent) without prior FRB approval;

(2) through merger, consolidation, or purchase of assets, another savings institution or a holding company thereof, or acquiring all or substantially all of the assets of such institution (or a holding company), without prior FRB approval; or

(3) control of any depository institution not insured by the FDIC.

A savings and loan holding company may not acquire as a separate subsidiary an insured institution that has a principal office outside of the state where the principal office of its subsidiary institution is located, except:

(1) in the case of certain emergency acquisitions approved by the FDIC;

(2) if such holding company controls a savings institution subsidiary that operated a home or branch office in such additional state as of March 5, 1987; or

(3) if the laws of the state in which the savings institution to be acquired is located specifically authorize a savings institution chartered by that state to be acquired by a savings institution chartered by the

state where the acquiring savings institution or savings and loan holding company is located or by a holding company that controls such a state chartered association.

In evaluating applications by holding companies to acquire savings associations, the FRB must consider issues such as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Savings and loan holding companies have not historically been subjected to consolidated regulatory capital requirements. The Dodd-Frank Act, however, required the FRB to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to their subsidiary depository institutions. Instruments such as cumulative preferred stock and trust-preferred securities, which are currently includable within Tier 1 capital by bank holding companies within certain limits, would no longer be includable as Tier 1 capital, subject to certain grandfathering. The previously discussed final rule regarding regulatory capital requirements implements the Dodd-Frank Act as to savings and loan holding companies. However, pursuant to recent legislation, the FRB has extended the applicability of the "Small Bank Holding Company" exception of its consolidated capital requirements to savings and loan holding companies and increased the threshold for the exception to $1.0 billion, effective May 15, 2015. As a result, savings and loan holding companies with less than $1.0 billion in consolidated assets are not subject to the capital requirements unless otherwise advised by the FRB.

The Dodd-Frank Act extends the "source of strength" doctrine to savings and loan holding companies. The FRB promulgated regulations implementing the "source of strength" policy that requires holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The FRB has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends' previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also provides for regulatory consultation prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions. As was previously noted, the Company Order requires prior regulatory approval for any Company dividends, stock repurchase or capital distribution.

Federal Securities Laws

The Company is subject to the periodic reporting, proxy solicitation, tender offer, insider trading restrictions and other requirements under the Securities Exchange Act of 1934, as amended ("Exchange Act").

Delaware Corporation Law

The Company is incorporated under the laws of the State of Delaware. Thus, it is subject to regulation by the State of Delaware and the rights of its shareholders are governed by the General Corporation Law of the State of Delaware.

FEDERAL AND STATE TAXATION

Federal Taxation

General. The Company and the Bank currently file consolidated federal income tax returns, report their income for tax return purposes on the basis of a taxable year ending March 31st, using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with some exceptions, including in particular the Bank's tax reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company.

Bad Debt Reserves. Prior to fiscal 2004, the Bank met the requirement as a “small bank” (one with assets having an adjusted tax basis of $500 million or less) and was permitted to maintain a reserve for bad debts, and to make, within specified formula limits, annual additions to the reserve which are deductible for purposes of computing the Bank's taxable income. Since fiscal year 2004, the Bank has not been considered to be a small bank because its total assets have exceeded $500 million. (See Income Taxes Note 9 of Notes to the Consolidated Financial Statements.)

Distributions. To the extent that the Bank makes “non-dividend distributions” to shareholders, such distributions will be considered to result in distributions from the Bank's “base year reserve,” i.e., its reserve as of March 31, 1988, to the extent thereof and then from its supplemental reserve for losses on loans, and an amount based on the amount distributed will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not constitute non-dividend distributions and, therefore, will not be included in the Bank's taxable income.

The amount of additional taxable income created from a non-dividend distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, approximately one and one-half times the non-dividend distribution would be includable in gross income for federal income tax purposes, assuming a 34% federal corporate income tax rate.

Dividends Received Deduction and Other Matters. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank owns more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividends received may be deducted.

State and Local Taxation

State of New York. The Bank and the Company file on a combined basis and are subject to New York State franchise tax on their entire net income or one of several alternative bases, whichever results in the highest tax. “Entire net income” means federal taxable income with adjustments. If, however, the application of an alternative tax (based on taxable assets allocated to New York, “alternative” entire net income or a fixed minimum fee) results in a greater tax, an alternative tax will be imposed. The Company was subject to tax based upon assets for New York State for fiscal 2015. In addition, New York State imposes a tax surcharge of 17% of the New York State Franchise Tax allocable to business activities carried on in the Metropolitan Commuter Transportation District. For fiscal 2015, the New York State franchise tax rate computed on taxable assets was 0.01% (including the Metropolitan Commuter Transportation District Surcharge).

On March 31, 2014, New York State tax legislation was signed into law in connection with the approval of the New York State 2014-2015 budget. Portions of the new legislation resulted in significant changes in the calculation of income taxes imposed on banks and thrifts operating in New York State, including changes to (1) future period New York State tax rates, (2) rules related to sourcing of revenue for New York State tax purposes and (3) the New York State taxation of entities within one corporate structure, among other provisions. In recent years, the Company has been subject to taxation based upon assets in New York State. The new legislation removes that method in future years.

New York City. The Bank and the Company file on a combined basis and are also subject to a similarly calculated New York City banking corporation tax on assets allocated to New York City. For fiscal 2015, the New York City banking corporation tax rate computed on taxable assets is 0.01%. On April 13, 2015, New York State legislation was signed changing the New York City tax law to conform to the New York State law that was adopted last year, with some minor differences.

The impact of the new legislation effecting both the New York State and New York City tax law was a decrease to the Company's gross deferred tax asset of $1.2 million with no impact to current income due to the full valuation allowance.

Management will continue to evaluate and interpret the new legislation and the impact such legislation will have on the Company in future periods. The ultimate impact of such legislation will depend on, among other things, the level and sources of the Company's revenue and how that revenue is treated under the new legislation.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

ITEM 1A. RISK FACTORS.

The following is a summary of risk factors relevant to the Company's operations which should be carefully reviewed. These risk factors do not necessarily appear in the order of importance.

Carver is subject to more stringent capital requirements, which may adversely impact the Company's return on equity, or constrain it from paying dividends or repurchasing shares.

In July 2013, the FDIC and the FRB approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to the Bank and the Company. The final rule implements the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which became effective for the Bank and the Company on January 1, 2015, and refines the definition of what constitutes “capital” for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also established a “capital conservation buffer” of 2.5%, and the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

Carver's results of operations may be adversely affected by loan repurchases from U.S. Government Sponsored entities (“GSE's”).

In connection with the sale of loans, Carver as the loan originator is required to make a variety of representations and warranties regarding the originator and the loans that are being sold. If a loan does not comply with the representations and warranties, Carver may be obligated to repurchase the loans, and in doing so, incur any loss directly. Prior to December 31, 2009, the Bank originated and sold loans to the Federal National Mortgage Association ("FNMA"). During fiscal years 2012 through 2015, the Bank has been obligated to repurchase 20 loans previously sold to FNMA. There is no assurance that the Bank will not be required to repurchase additional loans in the future. Accordingly, any repurchase obligations to FNMA could materially and adversely affect the Bank's results of operations and earnings in the future.

The prolonged negative effect of the recession and weak economic recovery will continue to adversely affect our financial performance.

The severe recession and weak economic recovery has resulted in continued uncertainty in the financial and credit markets in general. The FRB, in an attempt to stimulate the overall economy, has, among other things, kept interest rates historically low through its targeted federal funds rate and purchased mortgage-backed securities. While this has helped prevent the economy from deteriorating further and reduced the Bank's cost of funds, the low rates have made it difficult for the Bank to earn interest income on investments and loans. If the FRB increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets, business' ability to borrow and the U.S. economic recovery. Regardless of the cause or the FRB's response, a prolonged weakness in the economy generally, and in the financial services industry in particular, could continue to negatively affect our operations in multiple ways, including the ability to originate new loans at reasonable rates and the continued deterioration of our loan portfolio, requiring increased provisions and costs to mange problem assets.

Carver's results of operations are affected by economic conditions in the New York metropolitan area.

At March 31, 2015, a significant majority of the Bank's lending portfolio was concentrated in the New York metropolitan area. As a result of this geographic concentration, Carver's results of operations are largely dependent on economic conditions in this area. Decreases in real estate values could adversely affect the value of property used as collateral for loans to our borrowers. Adverse changes in the economy caused by inflation, recession, unemployment or other factors beyond the Bank's control may also continue to have a negative effect on the ability of borrowers to make timely mortgage or business loan payments, which would have an adverse impact on earnings. Consequently, deterioration in economic conditions in the New York metropolitan area could have a material adverse impact on the quality of the Bank's loan portfolio, which could result in increased delinquencies, decreased interest income results as well as an adverse impact on loan loss experience with probable increased allowance for loan losses. Such deterioration also could adversely impact the demand for products and services, and, accordingly, further negatively affect results of operations.

The soundness of other financial institutions could negatively affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

The allowance for loan losses could be insufficient to cover Carver's actual loan losses.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to the allowance would materially decrease net income.

In addition, the OCC periodically reviews the allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. A material increase in the allowance for loan losses or loan charge-offs as required by the regulatory authorities would have a material adverse effect on the Company's financial condition and results of operations.

Carver's concentration in commercial real estate loans and multifamily loans could, in a deteriorating economic climate, expose the Company to increased lending risks and related loan losses.

Although Carver Federal has reduced its concentration in non-owner occupied commercial real estate and multifamily loans to within Board approved policy limits, Carver Federal continues to maintain a high concentration in this product area and has begun, on a select basis, to renew existing loans and make new loans. However, further deterioration in the economy could expose Carver Federal to additional losses in these loan types.

Changes in interest rate environment may negatively affect Carver Federal's net income, mortgage loan originations and valuation of available-for-sale securities.

Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting primarily of loans and, to a lesser extent, securities) and the interest expense produced by our interest-bearing liabilities (consisting primarily of deposits and wholesale borrowings).

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, the level of which is driven by the Federal Open Market Committee of the FRB. However, the yields generated by our loans and securities are typically driven by intermediate-term (i.e., five-year) interest rates, which are set by the market and generally vary from day to day. The level of net interest income is therefore influenced by movements in such interest rates, and the pace at which such movements occur. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest-earning assets, the result could be a reduction in net interest income and with it, a reduction in our earnings. Our net interest income and earnings would be similarly impacted were the interest rates on our interest-earning assets to decline more quickly than the interest rates on our interest-bearing liabilities.

In addition, such changes in interest rates could affect our ability to originate loans and attract and retain deposits; the fair values of our securities and other financial assets; the fair values of our liabilities; and the average lives of our loan and securities portfolios.

Changes in interest rates could also have an effect on loan refinancing activity which, in turn, would impact the amount of prepayment penalty income we receive on our multi-family and commercial real estate loans. Because prepayment penalties are recorded as interest income, the extent to which they increase or decrease during any given period could have a significant impact on the level of net interest income and net income we generate during that time.

In addition, changes in interest rates could have an effect on the slope of the yield curve. If the yield curve were to invert or become flat, our net interest income and net interest margin could contract, adversely affecting our net income and cash flows and the value of our assets.

In addition, the actual amount of time before mortgage and business loans and mortgage-backed securities are repaid can be significantly impacted by changes in mortgage prepayment rates and prevailing market interest rates impacting not only Carver Federal's interest income, but Carver Federal's liquidity. Mortgage prepayment rates will vary due to a number of factors, including the regional economy in the area where the underlying mortgages were originated, seasonal factors, demographic variables and the ability to assume the underlying mortgages. However, the major factors affecting prepayment rates are prevailing interest rates, related loan refinancing opportunities and competition.

Finally, the estimated fair value of the Company's available-for-sale securities portfolio may increase or decrease materially depending on changes in interest rates. Carver Federal's securities portfolio is comprised primarily of fixed rate securities.

Strong competition within the Bank's market areas could adversely affect profits and slow growth.

The New York metropolitan area has a high density of financial institutions, of which many are significantly larger than Carver Federal and with greater financial resources. Additionally, various large out-of-state financial institutions may continue to enter the New York metropolitan area market. All are considered competitors to varying degrees.

Carver Federal faces intense competition both in making loans and attracting deposits. Competition for loans, both locally and in the aggregate, comes principally from mortgage banking companies, commercial banks, savings banks and savings and loan associations. Most direct competition for deposits comes from commercial banks, savings banks, savings and loan associations and credit unions. The Bank also faces competition for deposits from money market mutual funds and other corporate and government securities funds, as well as from other financial intermediaries, such as brokerage firms and insurance companies. Market area competition is a factor in pricing the Bank's loans and deposits, which could reduce net interest income. Competition also makes it more challenging to effectively grow loan and deposit balances. The Company's profitability depends upon its continued ability to successfully compete in its market areas.

Failure to maintain effective systems of internal and disclosure controls could have a material adverse effect on the Company’s results of operation and financial condition.

Effective internal and disclosure controls are necessary for the Company to provide reliable financial reports and effectively prevent fraud, and to operate successfully as a public company. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results would be harmed. As part of the Company’s ongoing monitoring of internal controls, it may discover material weaknesses or significant deficiencies in its internal control that require remediation. A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis.

The Company continually works on improving its internal controls. However, the Company cannot be certain that these measures will ensure that it implements and maintains adequate controls over its financial processes and reporting. Any failure to maintain effective controls or to timely implement any necessary improvement of the Company’s internal and disclosure controls could, among other things, result in losses from fraud or error, harm the Company’s reputation, or cause investors to lose confidence in the Company’s reported financial information, all of which could have a material adverse effect on the Company’s results of operation and financial condition.

Carver and the Bank operate in a highly regulated industry, which limits the manner and scope of business activities.

Carver Federal is subject to extensive supervision, regulation and examination by the OCC and to a lesser extent the FDIC. The Company is subject to extensive supervision, regulation and examination by the FRB. As a result, Carver Federal and the Company are limited in the manner in which Carver Federal and the Company conducts its business, undertakes new investments and activities and obtains financing. This regulatory structure is designed primarily for the protection of the deposit insurance funds and depositors, and not to benefit the Company's stockholders. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. In addition, Carver Federal must comply with significant anti-money laundering and anti-terrorism laws. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws.

On October 4, 2006, the OCC and other federal bank regulatory authorities published the Interagency Guidance on Nontraditional Mortgage Product Risk, or (the "Guidance"). In general, the Guidance applies to all residential mortgage loan products that allow borrowers to defer repayment of principal or interest. The Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among other things, interest-only loans. The Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Guidance indicates that originating interest-only loans with reduced documentation is considered a layering of risk and that institutions are expected to demonstrate mitigating factors to support their underwriting decision and the borrower's repayment capacity. Specifically, the Guidance indicates that a lender may accept a borrower's statement as to the borrower's income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity and that, for many borrowers, institutions should be able to readily document income.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) is significantly changing the current bank regulatory structure and affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years. However, it is expected that the legislation and implementing regulations will materially increase our operating and compliance costs.

The Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets. However, institutions of less than $10 billion in assets, such as the Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of their prudential regulator rather than the Consumer Financial Protection Bureau. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk-based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, which will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities.

Effective July 21, 2011, the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts, which could result in an increase in our interest expense.

The Dodd-Frank Act also broadens the base for FDIC deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts had unlimited deposit insurance through December 31, 2012. The legislation also increases the required minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits, and directs the FDIC to offset the effects of increased assessments on depository institutions with less than $10 billion in assets.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose “clawback” policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

Effective December 10, 2013, pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the “Volcker Rule”). Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliated companies from engaging in short-term proprietary trading of certain securities, investing in funds with collateral comprised of less than 100% loans that are not registered with the Securities and Exchange Commission (“SEC”) and from engaging in hedging activities that do not hedge a specific identified risk. After the transition period, the Volcker Rule prohibitions and restrictions will apply to banking entities, including the Company, unless an exception applies.

The Financial Accounting Standards Board, the SEC and other regulatory entities, periodically change the financial accounting and reporting guidance that governs the preparation of the Company's consolidated financial statements. These changes can be difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply new or revised guidance retroactively.

Our Common Stock may be delisted if we are not able to meet the NASDAQ continued listing requirements.

On November 30, 2011, we received notice from the NASDAQ Stock Market that the NASDAQ Hearings Panel had made a determination to transfer the listing of the Company's common stock from the NASDAQ Global Market to the NASDAQ Capital Market effective at the opening of the market on December 2, 2011. Although we believe that we are now in compliance with all continued listing requirements of The NASDAQ Capital Market, we may not be able to remain in compliance at all times. If we fail to meet the continued listing requirements, our shares of Common Stock may be delisted and we may be forced to list our shares of Common Stock on another exchange or quotation service. If this occurs, our Common Stock may become illiquid, and the price of our Common Stock may be negatively affected.

Restrictions on the Company and the Bank stemming from the Treasury's equity interest in the Company may have a material effect on results of operations.

On January 20, 2009, the Company became a TARP CPP participant by completing the sale of $18.98 million in preferred stock to the U.S. Treasury. As a participant, among other things, the Company must adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under this program. These standards would generally apply to the Company's CEO, CFO and the three next most highly compensated officers (“Senior Executive”). The standards include (1) ensuring that incentive compensation for Senior Executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required claw-back of any bonus or incentive compensation paid to a Senior Executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on making golden parachute payments to Senior Executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each Senior Executive. In particular, the change to the deductibility limit on executive compensation would likely increase slightly the overall cost of the Company's compensation programs. the Company also had to adopt certain monitoring and reporting processes.

On August 27, 2010, the Company redeemed the preferred stock and issued $18.98 million in Series B preferred stock in connection with the Company's changing its participation from TARP CPP to TARP Community Development Capital Initiative ("CDCI"). On October 25, 2011 Carver's shareholders approved the conversion of TARP CDCI Series B preferred stock to common stock. On October 28, 2011, the Treasury converted the CDCI Series B preferred stock to Carver common stock. Under the terms of the agreement between the Treasury and the Company, the Company agreed that so long as the Treasury has an equity interest in the Company, it will continue to be bound by all of the current restrictions and requirements that the Treasury may choose to implement. The Company is unable to determine the impact that future restrictions and/or requirements resulting from the Treasury's ownership interest may have on the Company's results of operations.

The Company is subject to certain risks with respect to liquidity.

Liquidity refers to the Company's ability to generate sufficient cash flows to support operations and to fulfill obligations, including commitments to originate loans, to repay wholesale borrowings, and to satisfy the withdrawal of deposits by customers.

The Company's primary sources of liquidity are the cash flows generated through the repayment of loans and securities, cash flows from the sale of loans and securities, deposits gathered organically through the Bank's branch network, from socially motivated depositors, city and state agencies and deposit brokers and borrowed funds, primarily in the form of wholesale borrowings from the FHLB-NY. In addition, and depending on current market conditions, the Company has the ability to access the capital markets from time to time.

Deposit flows, calls of investment securities and wholesale borrowings, and prepayments of loans and mortgage-related securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, local and national economic conditions and competition for deposits and loans in the markets the Bank serves. Furthermore, changes to the FHLB-NY's underwriting guidelines for wholesale borrowings may limit or restrict the Bank's ability to borrow, and could therefore have a significant adverse impact on liquidity.

A decline in available funding could adversely impact the Bank's ability to originate loans, invest in securities, and meet expenses, or to fulfill such obligations as repaying borrowings or meeting deposit withdrawal demands.

The Bank's ability to pay dividends or lend funds to the Company is subject to regulatory limitations that may prevent the Company from making future dividend payments or principal and interest payments on its debt obligation.

Carver is a unitary savings and loan association holding company regulated by the OCC and FRB and almost all of its operating assets are owned by Carver Federal. Carver relies primarily on dividends from the Bank 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 by the Bank to the Company, including dividend payments payments and the Federal Reserve Board regulates dividends by the Company. 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 prior to each capital distribution. The OCC will disallow any proposed dividend that would result in failure to meet the OCC minimum capital requirements. In accordance with the Orders, the Bank is currently prohibited from paying any dividends without prior regulatory approval, and, as such, has suspended the Company's regularly quarterly cash dividend on its common stock. There are no assurances that the payments of dividends on the common stock will resume. The FRB also precluded future payment of debenture interest payments on the Carver Statutory Trust I capital securities. These payments remain on deferral status.

Carver may not be able to utilize its income tax benefits.

The Company's ability to utilize the deferred tax asset generated by New Markets Tax Credit income tax benefits as well as other deferred tax assets depends on its ability to meet the NMTC compliance requirements and its ability to generate sufficient taxable income from operations in the future. Since the Bank has not generated sufficient taxable income to utilize tax credits as they were earned, a deferred tax asset has been recorded in the Company's financial statements. For additional information regarding Carver's NMTC, refer to Item 7, "Variable Interest Entities."

The future recognition of Carver's deferred tax asset is highly dependent upon Carver's ability to generate sufficient taxable income. A valuation allowance is required to be maintained for any deferred tax assets that we estimate are more likely than not to be unrealizable, based on available evidence at the time the estimate is made. In assessing Carver's need for a valuation allowance, we rely upon estimates of future taxable income. Although we use the best available information to estimate future taxable income, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances influencing our projections. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, statutory rates, and future taxable income levels. The Company determined that it would not be able to realize all of its net deferred tax assets in the future, as such a charge to income tax expense in the second quarter of fiscal 2011 was made. Conversely, if the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of the net carrying amounts, the Company would decrease the recorded valuation allowance through a decrease in income tax expense in the period in which that determination was made.

On June 29, 2011, the Company raised $55 million of equity. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carry forwards, general business credits, and recognized built-in losses upon a change in ownership. The Company is subject to an annual limitation of approximately $0.9 million. The Company has a net deferred tax asset ("DTA") of approximately $29.2 million. Based on management's calculations, the Section 382 limitation has resulted in previous reductions of the deferred tax asset of $5.8 million. The Company also continues to maintain a full valuation allowance for the remaining net deferred tax asset of $23.4 million. The Company is unable to determine how much, if any of the remaining DTA will be utilized.

System failure or breaches of Carver's network security could subject it to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure Carver and its third-party service providers use could be vulnerable to unforeseen problems. Carver's operations are dependent upon its ability to protect its computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in Carver's operations could have a material adverse effect on its financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through Carver's computer systems and network infrastructure, which may result in significant liability to Carver and may cause existing and potential customers to refrain from doing business with Carver. Although Carver, with the help of third-party service providers, intends to continue to implement security technology and establish operational procedures designed to prevent such damage, its security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms Carver and its third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on Carver's financial condition and results of operations.

It is possible that a significant amount of time and money may be spent to rectify the harm caused by a breach or hack. While Carver has general liability insurance, there are limitations on coverage as well as dollar amount. Furthermore, cyber incidents carry a greater risk of injury to Carver's reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on Carver's business and consumer laws may require reimbursement of customer loss.

The Company's business could suffer if it fails to retain skilled people.

The Company's success depends on its ability to attract and retain key employees reflecting current market opportunities and challenges. Competition for the best people is intense, and the Company's size and limited resources may present additional challenges in being able to retain the best possible employees, which could adversely affect the results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable.

ITEM 2. PROPERTIES.

The Bank currently conducts its business through two administrative offices and ten branches (including the West Harlem 125th Street main branch) and four separate ATM locations.

The following table sets forth certain information regarding Carver Federal's offices and other material properties at March 31, 2015. The Bank believes that such facilities are suitable and adequate for its operational needs.

Branches	Address	City/State	Year Opened	Owned or Leased	Lease Expiration Date	% Space Utilized
Main Branch	75 West 125th Street	New York, NY	1996	Owned	n/a	100%
Crown Heights Branch	1009-1015 Nostrand Avenue	Brooklyn, NY	1975	Owned	n/a	100%
St. Albans Branch	115-02 Merrick Boulevard	Jamaica, NY	1996	Leased	2/2021	100%
Malcolm X Blvd. Branch	142 Malcolm X Boulevard	New York, NY	2001	Leased	5/2016	100%
Jamaica Center Branch	158-45 Archer Avenue	Jamaica, NY	2003	Leased	7/2018	100%
Atlantic Terminal Branch	4 Hanson Place	Brooklyn, NY	2003	Leased	4/2019	100%
Bradhurst Branch	300 West 145th Street	New York, NY	2004	Leased	8/2015	100%
Flatbush Branch	833 Flatbush Avenue	Brooklyn, NY	2009	Leased	8/2019	100%
Restoration Plaza	1392 Fulton Street	Brooklyn, NY	2009	Leased	10/2018	100%
East Harlem Branch	160 East 125th Street	New York, NY	2012	Leased	8/2015	100%
ATM Centers						
Fulton Street	1950 Fulton Street	Brooklyn, NY	2005	Leased	1/2020	100%

Myrtle Avenue	362 Myrtle Avenue	Brooklyn, NY	2007	Leased	7/2017	100%
ATM Machines						
Atlantic Terminal Mall	139 Flatbush Avenue	Brooklyn, NY	2004	Leased	4/2019	100%
Atlantic Center	625 Atlantic Avenue	Brooklyn, NY	2006	Leased	2/2019	100%
Administrative Office						
Metrotech Center	12 Metrotech Center	Brooklyn, NY	2007	Leased	12/2017	100%

ITEM 3. LEGAL PROCEEDINGS.

From time to time, the Company and the Bank or one of its wholly owned subsidiaries are parties to various legal proceedings incident to their business. Certain claims, suits, complaints and investigations (collectively "proceedings") involving the Company and the Bank or a subsidiary, arising in the ordinary course of business, have been filed or are pending. The Company is unable at this time to determine the ultimate outcome of each proceeding, but believes, after discussions with legal counsel representing the Company and the Bank or the subsidiary in these proceedings, that it has meritorious defenses to each proceeding and appropriate measures have been taken to defend the interests of the Company, Bank or subsidiary. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank. Further, there have been no material developments or changes associated with any litigation matters previously reported by the Company or the Bank. In accordance with ASC Topic 450, Carver has accrued $30,000 for these lawsuits.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock was transferred from The Nasdaq Global Market to The Nasdaq Capital Market effective December 2, 2011. The stock had been listed on the NASDAQ Global Market under the symbol "CARV" since July 10, 2008. As of March 31, 2015, there were 3,696,087 shares of common stock outstanding, held by 811 stockholders of record. The following table shows the high and low per share sales prices of the common stock and the dividends declared for the quarters indicated.

	High	Low	Dividend		High	Low	Dividend
Fiscal Year 2015				Fiscal Year 2014			
June 30, 2014	$13.00	$10.06	$—	June 30, 2013	$6.32	$4.17	$—
September 30, 2014	$10.23	$8.65	$—	September 30, 2013	$9.00	$4.60	$—
December 31, 2014	$9.11	$5.40	$—	December 31, 2013	$9.54	$5.39	$—
March 31, 2015	$7.00	$3.95	$—	March 31, 2014	$17.87	$6.40	$—

As previously disclosed in a Form 8-K filed with the SEC on October 29, 2010, the Company's Board of Directors announced that, based on highly uncertain economic conditions and the desire to preserve capital, Carver suspended payment of the quarterly cash dividend on its common stock.

Under OCC regulations, the Bank will not be permitted to pay dividends to the Company on its capital stock if its regulatory capital would be reduced below applicable regulatory capital requirements or if its stockholders' equity would be reduced below the amount required to be maintained for the liquidation account, which was established in connection with the Bank's conversion to stock form. The OCC capital distribution regulations applicable to savings institutions (such as the Bank) that meet their regulatory capital requirements permit, after not less than 30 days prior notice to and non-objection by the FRB, capital distributions during a calendar year that do not exceed the Bank's net income for that year plus its retained net income for the prior two years. For information concerning the Bank's liquidation account, see Note 11 of the Notes to the Consolidated Financial Statements. In addition, the Company is subject to cease and desist orders that affect their ability to pay dividends. See Item 1 - Overview - Cease and Desist Orders.

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 March 31, 2015, 11,744 shares of its common stock have been repurchased in open market transactions at an average price of $235.80 per share (as adjusted for 1-for-15 reverse stock split that occurred on October 27, 2011). The Company intends to use repurchased shares to fund its stock-based benefit and compensation plans and for any other purpose the Board deems advisable in compliance with applicable law. No shares were repurchased during fiscal 2015. 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. As discussed below, 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.

Carver has the following equity compensation plans:

(1) The Management Recognition Plan ("MRP") provides for automatic grants of restricted stock to certain employees and non-employee directors as of the date the plan became effective in 1995. Additionally, the MRP makes provision for added discretionary grants of restricted stock to those employees so selected by the Compensation Committee of the Board, which administers the plan. There are no shares available for grant under the MRP.

(2) The 1995 Stock Option Plan provides for automatic option grants to certain employees and directors as of the date the plan became effective in September of 1995, and like the MRP, also makes provision for added discretionary option grants to those employees so selected by the Compensation Committee. The 1995 Stock Option Plan expired in 2005; however, options are still outstanding under this plan.

(3) The 2006 Stock Incentive Plan became effective in September of 2006 and provides for discretionary option grants, stock appreciation rights and restricted stock to those employees and directors so selected by the Compensation Committee.

(4) The Carver Bancorp, Inc. 2014 Equity Incentive Plan became effective in September 2014 and provides for discretionary option grants, stock appreciation rights and restricted stock to those officers and directors selected by the Company's Compensation Committee.

Additional information regarding Carver's equity compensation plans is incorporated by reference from the section entitled "Securities Authorized for Issuance Under Equity Compensation Plans" in the Proxy Statement (as defined below in Item 10).

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

See Item 1 - Overview - Recapitalization - Transactions. As previously disclosed on the Form 8-K, on June 29, 2011, Carver Bancorp, Inc. entered into stock purchase agreements with several institutional investors pursuant to which the investors agreed to purchase an aggregate of 55,000 shares of the Company's Mandatorily Convertible Non-Voting Participating Preferred Stock, Series C for an aggregate purchase price of $55,000,000. The Series C preferred stock was offered and sold pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933.

On October 25, 2011, Carver's shareholders voted and approved a 1-for-15 reverse stock split. A separate vote of stockholder approval was given to convert the Series C preferred stock into Series D preferred stock and common stock and exchange the Treasury CDCI Series B preferred stock for common stock.

On October 28, 2011, the Treasury exchanged the CDCI Series B preferred stock for Carver common stock.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial and other data is as of and for the years ended March 31 and is derived in part from, and should be read in conjunction with the Company's consolidated financial statements and related notes:

$ in thousands	2015	2014	2013	2012	2011
Selected Financial Condition Data:					
Assets	$676,386	$639,838	$638,277	$641,230	$709,215
Loans held-for-sale	2,576	5,011	13,107	29,626	9,205
Total loans receivable, net	478,716	382,723	359,133	393,037	557,156
Investment securities	113,107	98,490	125,094	96,187	71,248
Cash and cash equivalents	50,992	122,554	104,646	91,697	44,077
Deposits	527,761	509,366	495,716	532,597	560,698
Advances from the FHLB-NY and other borrowed money	83,403	70,403	76,403	43,429	112,641
Equity	54,979	51,169	56,735	56,619	27,717
Number of deposit accounts	45,780	40,530	41,195	41,549	44,413
Number of branches	10	10	10	9	9
Operating Data:					
Interest income	22,327	23,248	23,785	27,936	36,245
Interest expense	3,942	3,951	4,878	8,053	9,455
Net interest income before provision for (recovery of) loan losses	18,385	19,297	18,907	19,883	26,790
Provision for (recovery of) loan losses	(3,010)	(426)	(3,327)	16,342	27,114
Net interest income after provision for (recovery of) loan losses	21,395	19,723	22,234	3,541	(324)
Non-interest income	5,568	6,806	7,049	3,654	7,330
Non-interest expense	26,714	27,373	29,238	30,934	30,758
Income (loss) before income taxes	249	(844)	45	(23,739)	(23,752)
Income tax expense (benefit)	166	102	328	(961)	15,718
Net (loss) income attributable to non-controlling interest	(281)	(110)	(945)	629	57
Net income (loss) attributable to Carver Bancorp, Inc.	364	(836)	662	(23,407)	(39,527)
Basic earnings (loss) per common share [10]	0.10	(0.23)	0.18	(14.26)	(242.25)
Diluted earnings (loss) per common share	0.10	(0.23)	0.18	(14.26)	(242.25)
Cash dividends per common share	—	—	—	—	0.50
Selected Statistical Data:					
Return on average assets [1]	0.06 %	(0.14)%	0.11 %	(3.49)%	(5.08)%
Return on average stockholders' equity [2] [11]	0.67 %	(1.57)%	1.19 %	(40.46)%	(79.00)%
Return on average stockholders' equity, excluding AOCI [2] [11]	0.64 %	(1.49)%	1.18 %	(40.37)%	(78.83)%
Net interest margin [3]	3.03 %	3.35 %	3.11 %	3.10 %	3.62 %
Average interest rate spread [4]	2.91 %	3.22 %	2.93 %	2.78 %	3.42 %
Efficiency ratio [5] [10]	111.53 %	104.87 %	112.64 %	131.43 %	90.15 %
Operating expense to average assets [6]	4.27 %	4.56 %	4.74 %	4.62 %	3.96 %
Average stockholders' equity to average assets [7] [11]	8.68 %	8.90 %	9.00 %	8.64 %	6.44 %
Average stockholders' equity, excluding AOCI, to average assets [7] [11]	9.09 %	9.33 %	9.07 %	8.66 %	6.45 %
Dividend payout ratio [8]	—	—	—	—	NM

Asset Quality Ratios:										
Non-performing assets to total assets [9]	2.26	%	2.96	%	7.23	%	13.47	%	12.29	%
Non-performing loans to total loans receivable [9]	1.74	%	3.22	%	8.27	%	13.22	%	13.34	%
Allowance for loan losses to total loans receivable	0.93	%	1.85	%	2.97	%	4.80	%	3.99	%

(1) Net income (loss) divided by average total assets.

(2) Net income (loss) divided by average total stockholders' equity

(3) Net interest income 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 divided by average total assets.

(7) Average stockholders' equity divided by average assets for the period ended.

(8) Dividends paid to common stockholders as a percentage of net income available to common stockholders.

38

(9) Non-performing assets consist of nonaccrual loans, loans held-for-sale and real estate owned.

(10) Common stock shares for all periods presented reflects a 1-for-15 reverse stock split which was effective on October 27, 2011. The decline in loss per share from 2011 to 2012 is attributable to the issuance of 3,529,325 shares of common stock on October 28, 2011 as a result of the Company's June 29, 2011 raise of $55 million of equity.

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

NA-Not applicable when in loss position because the impact would be antidilutive.

NM-Not meaningful.

Non-GAAP Financial Measures

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

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

$ in thousands	2015	2014	2013	2012	2011
Average Stockholders' Equity					
Average Stockholders' Equity	$54,319	$53,406	$55,467	$57,849	$50,032
Average AOCI	(2,525)	(2,545)	(436)	(126)	(112)
Average Stockholders' Equity, excluding AOCI	$56,844	$55,951	$55,903	$57,975	$50,144
Return on Average Stockholders' Equity	0.67%	(1.57)%	1.19%	(40.46)%	(79.00)%
Return on Average Stockholders' Equity, excluding AOCI	0.64%	(1.49)%	1.18%	(40.37)%	(78.83)%
Average Stockholders' Equity to Average Assets	8.68%	8.90%	9.00%	8.64%	6.44%
Average Stockholders' Equity, excluding AOCI, to Average Assets	9.09%	9.33%	9.07%	8.66%	6.45%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements presented elsewhere in this report. The Company's results of operations are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies, changes in accounting standards and actions of regulatory agencies.

Executive Summary

Carver ended fiscal 2015 with net income of $364 thousand, compared to a net loss of $836 thousand for the prior year period. The prior year loss was primarily related to recognition of a non-cash expense associated with the termination of the Company's pension plan. The Bank continues to remain focused on loan portfolio growth and improving asset quality, with loans increasing 24% fiscal year-to-date and non-performing assets declining by 19% year-over-year.

The business climate continues to present significant challenges as banks continue to absorb heightened regulatory costs and compete for limited loan demand. Nevertheless, Carver Federal seeks to generate new loan production and purchase loans at suitable prices such that the outstanding loan portfolio increases during the fiscal year. Carver Federal also intends to continue to focus on cost control. With the lifting of the Bank's Orders in November 2014, the Company expects lower FDIC insurance and regulatory costs, and the completion of the Bank's upgrade of its technology platform during the fiscal year will better serve the Bank's customers and serve as a tool to attract new business, including the growing segment of women and minority entrepreneurs in the local communities.

Critical Accounting Policies

Various elements of accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Carver's policy with respect to the methodologies used to determine the allowance for loan and lease losses, securities impairment, and assessment of the recoverability of the deferred tax asset are the most critical accounting policies. These policies are important to the presentation of Carver's financial condition and results of operations, and involve a high degree of complexity, requiring management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Such assumptions and estimates are susceptible to significant changes in today's economic environment. The use of different judgments, assumptions and estimates could result in material differences in the Company's results of operations or financial condition.

Allowance for Loan and Lease Losses

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

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is significant judgment applied in estimating the ALLL. These assumptions and estimates are susceptible to significant changes from period to period. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans.

General Reserve Allowance

Carver's maintenance of a general reserve allowance in accordance with ASC 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
- SBA Loans
- Other (Consumer and Overdraft Accounts)

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

- Pass
- Special Mention
- Substandard
- Doubtful

The Bank next applies to each pool a risk factor that determines the level of general reserves for the 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. The Bank generally considers coverage of one year’s losses an appropriate benchmark for most pools of loans because the probable loss on any given pool should ordinarily become apparent in that time frame. In some instances, the Bank may be able, however, to demonstrate a reliance on an LEP less than 12 months coverage based upon adequate management information systems and effective methodologies for estimating losses. However, in some instances, such as in its Commercial Real Estate, Multifamily and Business segments the Bank demonstrates a reliance on 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 may increase. The nine qualitative factors the Bank considers and may utilize are:

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

Specific Reserve Allowance

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

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

The institution 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 troubled debt restructurings (“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 positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The fair values of securities in portfolio are based on published or securities dealers’ market values and are affected by changes in interest rates. On a quarterly basis, the Bank reviews and evaluates the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. The Bank generally views changes in fair value caused by changes in interest rates as temporary, which is consistent with its experience. The amount of an other-than-temporary impairment, when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more-likely-than-not that the Bank will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security’s amortized cost basis and its fair value would be included in other comprehensive (loss) income. This guidance also requires additional disclosures about investments in an unrealized loss position and the methodology and significant inputs used in determining the recognition of other-than-temporary impairment. At March 31, 2015, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

Deferred Tax Assets

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

On June 29, 2011, the Company raised $55 million of equity, which resulted in a $51.4 million increase in equity after considering the effect of various expenses associated with the capital raise. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carryforwards, general business credits, and recognized built-in losses upon a change in ownership. The Company expects to be subject to an annual limitation of approximately $900 thousand. The Company has a net deferred tax asset ("DTA") of approximately $29.2 million. Based on management's calculations, the Section 382 limitation has resulted in previous reductions of the deferred tax asset of $5.8 million. A full valuation allowance for the remaining net deferred tax asset of $23.4 million has been recorded.

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 on 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.

Discussion of Market Risk-Interest Rate Sensitivity Analysis

As a financial institution, the Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets, other than those which are short-term in maturity. Since virtually all of the Company's interest-bearing assets and liabilities are held by the Bank, most of the Company's interest rate risk exposure is retained by the Bank. As a result, all significant interest rate risk management procedures are performed at the Bank. Based upon the Bank's nature of operations, the Bank is not subject to foreign currency exchange or commodity price risk. The Bank does not own any trading assets.

Carver Federal seeks to manage its interest rate risk by monitoring and controlling the variation in repricing intervals between its assets and liabilities. To a lesser extent, Carver Federal also monitors its interest rate sensitivity by analyzing the estimated changes in market value of its assets and liabilities assuming various interest rate scenarios. As discussed more fully below, there are a variety of factors that influence the repricing characteristics of any given asset or liability.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest rate sensitive” and by monitoring an institution's interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific period if it will mature or reprice within that period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific period of time and the amount of interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities and is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Generally, during a period of falling interest rates, a negative gap could result in an increase in net interest income, while a positive gap could adversely affect net interest income. Conversely, during a period of rising interest rates a negative gap could adversely affect net interest income, while a positive gap could result in an increase in net interest income. As illustrated below, Carver Federal had a negative one-year gap equal to 51.91% of total rate sensitive assets at March 31, 2015. As a result, Carver Federal's net interest income may be negatively affected by rising interest rates and may be positively affected by falling interest rates.

The following table sets forth information regarding the projected maturities, prepayments and repricing of the major rate-sensitive asset and liability categories of Carver Federal as of March 31, 2015. Maturity repricing dates have been projected by applying estimated prepayment rates based on the current rate environment. The repricing and other assumptions are not necessarily representative of the Bank's actual results. Classifications of items in the table below are different from those presented in other tables and the financial statements and accompanying notes included herein and do not reflect non-performing loans:

$ in thousands	<3 Mos.	3-12 Mos.	1-3 Yrs.	3-5 Yrs.	5-10 Yrs.	10+ Yrs.	Non-Interest Bearing Funds	Total
Rate Sensitive Assets:								
Loans	11,784	15,217	50,272	126,332	125,998	137,509	14,179	481,291
Mortgage backed securities	5,533	—	2,484	13,999	33,741	57,350	—	113,107
Investment securities	9,643	—	—	—	—	—	—	9,643
Other assets	51,223	—	—	—	—	—	21,122	72,345
Total assets	78,183	15,217	52,756	140,331	159,739	194,859	35,301	676,386
Rate Sensitive Liabilities:								
Interest-bearing checking accounts	30,860	—	—	—	—	—	—	30,860
Savings accounts	95,009	—	—	—	—	—	—	95,009
Money market accounts	148,702	—	—	—	—	—	—	148,702
Certificate of deposits	29,249	82,375	61,828	28,299	708	—	—	202,459
Borrowings	40,000	—	—	30,000	—	13,403	—	83,403
Other liabilities	—	—	—	—	—	—	60,975	60,975
Equity	—	—	—	—	—	—	54,978	54,978
Total liabilities and equity	343,820	82,375	61,828	58,299	708	13,403	115,953	676,386
Interest sensitivity gap	(265,637)	(67,158)	(9,072)	82,032	159,031	181,456	(80,652)	—
Cumulative interest sensitivity gap	(265,637)	(332,795)	(341,867)	(259,835)	(100,804)	80,652	—	—
Ratio of cumulative gap to total rate sensitive assets	(41.44)%	(51.91)%	(53.33)%	(40.53)%	(15.72)%	12.58 %	—	—

The table above assumes that fixed maturity deposits are not withdrawn prior to maturity and that transaction accounts will decay as disclosed in the table above.

Certain shortcomings are inherent in the method of analysis presented in the table above. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in the market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, generally have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Additionally, credit risk may increase as many borrowers may experience an inability to service their debt in the event of a rise in interest rate. Virtually all of the adjustable-rate loans in Carver Federal's portfolio contain conditions that restrict the periodic change in interest rate.

Economic Value of Equity ("EVE") Analysis. As part of its efforts to maximize net interest income while managing risks associated with changing interest rates, management also uses the EVE methodology. EVE is the present value of expected net cash flows from existing assets less the present value of expected cash flows from existing liabilities plus the present value of net expected cash inflows from existing financial derivatives and off-balance sheet contracts.

Under this methodology, interest rate risk exposure is assessed by reviewing the estimated changes in EVE that would hypothetically occur if interest rates rapidly rise or fall along the yield curve. Projected values of EVE at both higher and lower interest rate risk scenarios are compared to base case values (no change in rates) to determine the sensitivity to changing interest rates.

Presented below, as of March 31, 2015, is an analysis of the Bank's interest rate risk as measured by changes in EVE for instantaneous parallel shifts of +/- 400 basis points change in market interest rates. Such limits have been established with consideration of the impact of various rate changes and the Bank's current capital position. The information set forth below relates solely to the Bank. However, because virtually all of the Company's interest rate risk exposure lies at the Bank level, management believes the table below also similarly reflects an analysis of the Company's interest rate risk.

$ in thousands	Economic Value of Equity			EVE as % of PV of Assets	
Change in Rate	$ Amount	$ Change	% Change	EVE Ratio	Change
+400 bps	66,412	(10,549)	(13.71)%	10.73%	-47 bps
+300 bps	68,650	(8,311)	(10.80)%	10.81%	-39 bps
+200 bps	71,987	(4,974)	(6.46)%	11.04%	-16 bps
+100 bps	75,169	(1,792)	(2.33)%	11.22%	2 bps
0 bps	76,961			11.20%	
-100 bps	75,919	(1,042)	(1.35)%	10.80%	-40 bps
-200 bps	78,822	1,861	2.42%	10.99%	-21 bps
-300 bps	87,796	10,835	14.08%	12.03%	83 bps
-400 bps	94,790	17,829	23.17%	12.87%	167 bps

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in EVE require the making of certain assumptions, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the EVE table provides an indication of Carver Federal's interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on Carver Federal's net interest income and may differ from actual results.

Average Balance, Interest and Average Yields and Rates

The following table sets forth certain information relating to Carver Federal's average interest-earning assets and average interest-bearing liabilities, and their related average yields and costs for the years ended March 31, 2015, 2014, and 2013. The table also presents information for the fiscal years indicated with respect to the difference between the weighted average yield earned on interest-earning assets and the weighted average rate paid on interest-bearing liabilities, or “interest rate spread,” which savings institutions have traditionally used as an indicator of profitability. Another indicator of an institution's profitability is its “net interest margin,” which is its net interest income divided by the average balance of interest-earning assets. Net interest income is affected by the interest rate spread and by the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income:

$ in thousands	2015 Average Balance	Interest	Average Yield/ Cost		2014 Average Balance	Interest	Average Yield/ Cost		2013 Average Balance	Interest	Average Yield/ Cost	
Interest-Earning Assets:												
Loans [1]	$412,357	$19,974	4.84	%	$385,259	$20,734	5.38	%	$407,106	$21,398	5.26	%
Mortgage-backed securities	36,947	799	2.16	%	49,921	1,034	2.07	%	50,958	971	1.91	%
Investment securities	53,915	1,022	1.90	%	55,643	1,016	1.83	%	53,012	874	1.65	%
Restricted cash deposit	6,354	1	0.03	%	7,209	1	0.03	%	7,458	2	0.03	%
Equity securities [2]	1,936	81	4.18	%	2,280	88	3.86	%	2,596	93	3.58	%
Other investments and federal funds sold	94,310	450	0.48	%	75,945	375	0.49	%	86,122	447	0.52	%
Total interest-earning assets	605,819	22,327	3.68	%	576,257	23,248	4.03	%	607,252	23,785	3.92	%
Non-interest-earning assets	19,721				23,573				9,264			
Total assets	$625,540				$599,830				$616,516			
Interest-Bearing Liabilities:												
Deposits												
Interest-bearing checking	$27,549	$45	0.16	%	$25,184	$40	0.16	%	$25,842	$42	0.16	%
Savings and clubs	95,731	255	0.27	%	96,424	256	0.27	%	98,785	259	0.26	%
Money market	142,252	692	0.49	%	116,535	536	0.46	%	111,148	739	0.66	%
Certificates of deposit	197,447	1,831	0.93	%	191,854	1,931	1.01	%	209,622	2,431	1.16	%
Mortgagors deposits	1,956	30	1.53	%	1,955	34	1.74	%	2,079	37	1.78	%
Total deposits	464,935	2,853	0.61	%	431,952	2,797	0.65	%	447,476	3,508	0.78	%
Borrowed money	46,702	1,089	2.33	%	51,264	1,154	2.25	%	44,099	1,370	3.11	%
Total interest-bearing liabilities	511,637	3,942	0.77	%	483,216	3,951	0.82	%	491,575	4,878	0.99	%
Non-interest-bearing liabilities:												
Demand deposits	52,866				55,405				61,293			
Other liabilities	7,184				7,983				8,236			
Total liabilities	571,687				546,604				561,104			
Net loss attributable to non-controlling interest	(466)				(180)				(55)			
Stockholders' equity	54,319				53,406				55,467			
Total liabilities & equity	$625,540				$599,830				$616,516			
Net interest income		$18,385				$19,297				$18,907		
Average interest rate spread			2.91	%			3.22	%			2.93	%
Net interest margin			3.03	%			3.35	%			3.11	%

Ratio of average interest-earning assets to interest-bearing liabilities	118.41%	119.25%	123.53%

(1) Includes nonaccrual loans.
(2) Includes FHLB-NY stock.

Rate/Volume Analysis

The following table sets forth information regarding the extent to which changes in interest rates and changes in volume of interest related assets and liabilities have affected Carver Federal's interest income and expense during the fiscal years ended March 31, 2015, 2014, and 2013 (in thousands). For each category of interest-earning assets and interest-bearing liabilities, information is provided for changes attributable to: (1) changes in volume (changes in volume multiplied by prior rate); (2) changes in rate (change in rate multiplied by old volume). Changes in rate/volume variance are allocated proportionately between changes in rate and changes in volume.

	2015 vs. 2014			2014 vs. 2013		
	Increase (Decrease) due to			Increase (Decrease) due to		
$ in thousands	Volume	Rate	Total	Volume	Rate	Total
Interest-Earning Assets:						
Loans	$1,458	$(2,218)	$(760)	$(1,148)	$484	$(664)
Mortgage-backed securities	(269)	34	(235)	(20)	83	63
Investment securities	(31)	37	6	43	99	142
Restricted cash deposit	—	—	—	—	(1)	(1)
Equity securities	(13)	6	(7)	(11)	6	(5)
Other investments and federal funds sold	91	(16)	75	(53)	(19)	(72)
Total interest-earning assets	1,236	(2,157)	(921)	(1,189)	652	(537)
Interest-Bearing Liabilities:						
Deposits						
Interest-bearing checking	4	1	5	(1)	(1)	(2)
Savings and clubs	(2)	1	(1)	(6)	3	(3)
Money market savings	118	38	156	36	(239)	(203)
Certificates of deposit	56	(156)	(100)	(207)	(294)	(501)
Mortgagors deposits	—	(4)	(4)	(2)	(1)	(3)
Total deposits	176	(120)	56	(180)	(532)	(712)
Borrowed money	(103)	38	(65)	223	(438)	(215)
Total interest-bearing liabilities	73	(82)	(9)	43	(970)	(927)
Net change in net interest income	$1,163	$(2,075)	$(912)	$(1,232)	$1,622	$390

Comparison of Financial Condition at March 31, 2015 and 2014

Assets

At March 31, 2015, total assets increased $36.5 million, or 5.7%, to $676.4 million, compared to $639.8 million at March 31, 2014. The overall change was primarily driven by increases of $96.0 million in the loan portfolio, net of the allowance for loan losses, and $14.6 million in the investment portfolio, offset by a decrease of $70.4 million in cash and due from banks as a result of increased lending and investing activity.

Total investment securities increased $14.6 million, or 14.8%, to $113.1 million at March 31, 2015, compared to $98.5 million at March 31, 2014 as the Bank redeployed excess cash by purchasing securities.

Net loans receivable increased $93.2 million, or 23.9%, to $483.2 million at March 31, 2015, compared to $390.0 million at March 31, 2014 following growth in business and mortgage loans from loan purchases and originations.

Liabilities and Equity

Liabilities

Total liabilities increased $32.7 million, or 5.6%, to $621.4 million at March 31, 2015, compared to $588.7 million at March 31, 2014, due to increases in deposits of $18.4 million, and borrowings of $13.0 million to fund the growth in loans and securities.

Deposits increased $18.4 million, or 3.6%, to $527.8 million at March 31, 2015, compared to $509.4 million at March 31, 2014, following an increase in money market and interest-bearing checking accounts.

Advances from the FHLB-NY and other borrowed money increased $13.0 million, or 18.5%, to $83.4 million at March 31, 2015, compared to $70.4 million at March 31, 2014. The Bank increased its borrowings to fund loan growth in the fourth quarter.

Equity

Total equity increased $3.8 million, or 7.4%, to $55.0 million at March 31, 2015, compared to $51.2 million at March 31, 2014. The increase was primarily due to a $3.7 million reduction in unrealized losses on investments and net income earned for the fiscal year.

Comparison of Operating Results for the Years Ended March 31, 2015 and 2014

Net Income/Loss

Net income for fiscal year 2015 was $364 thousand compared to a net loss of $836 thousand for the prior year period, an increase of $1.2 million. The change was driven by higher recoveries of loan losses and lower non-interest expense, partially offset by lower net interest income and non-interest income in the current year.

Net Interest Income

Net interest income decreased $912 thousand, or 4.7%, to $18.4 million for fiscal year 2015, compared to $19.3 million for the prior year period. This change was driven primarily by lower yields on loans.

Interest income decreased $921 thousand, or 4.0%, to $22.3 million compared to $23.2 million in the prior year period. Although the average balance of loans increased by $27.1 million, or 7.0% year over year, the average yield on loans decreased by 54 basis points from 5.38% to 4.84% for the year ended March 31, 2015, driven by a higher concentration of one-to-four family loans and a lower mix of commercial real estate loans. Interest income on mortgage-backed securities decreased $235 thousand for the fiscal year following a $13.0 million, or 26.0%, decrease in the average balances of mortgage-backed securities from the prior year, as low interest rates fueled prepayments. The average yield on mortgage-backed securities increased 9 basis points from 2.07% to 2.16% for the year ended March 31, 2015.

Interest expense remained relatively unchanged at $3.9 million, decreasing $9 thousand, or 0.2%, from the prior year period. An increase in interest expense on deposits was partially offset by a decrease in interest expense on borrowed funds, as the Bank grew deposits and reduced borrowings during the current fiscal year.

Provision for (Recovery of) Loan Losses

The Bank recorded a $3.0 million recovery of loan losses for fiscal year 2015, compared to a $426 thousand recovery for the prior year period. For the year ended March 31, 2015, net recoveries of $255 thousand were recognized, compared to net charge-offs of $3.3 million in the prior year period. Decreases in historic loan loss rates and recoveries of previously charged-off loans were the primary drivers of the improvement. At March 31, 2015, non-performing assets totaled $15.3 million, or 2.3% of total assets, compared to $18.9 million, or 3.0% of total assets at March 31, 2014. The allowance for loan losses was $4.5 million at March 31, 2015, which represents a ratio of the allowance for loan losses to non-performing loans of 53.3% compared to 57.6% at March 31, 2014. The ratio of the allowance for loan losses to total loans receivable was 0.9% at March 31, 2015, a decrease from 1.9% at March 31, 2014, as non-performing loans decreased 33.2% during the period.

Non-interest Income

Non-interest income decreased $1.2 million, or 18.2%, to $5.6 million compared to $6.8 million in the prior year period. Non-interest income in the prior year period included gains on sales of loans and securities of $1.3 million and $552 thousand, respectively, as the Bank disposed of non-performing loans and repositioned its investment portfolio. Other non-interest income for the current fiscal year included a $323 thousand grant award from the Community

Development Financial Institutions Fund (the "CDFI Fund") of the Treasury Department.

Non-interest Expense

Non-interest expense decreased $659 thousand, or 2.4%, to $26.7 million, compared to $27.4 million in the prior year period. The decrease was attributed to lower federal deposit insurance premiums as a result of the termination of the Bank's Cease & Desist Orders by the Office of the Comptroller of the Currency ("OCC"), and a decrease in data processing costs offset in part by higher consulting expenses associated with the upgrade of the Bank's core technology platform. Employee compensation and benefits expenses were also higher in the prior year period due to the expense associated with terminating the Company's pension plan.

Income Taxes

Income tax expense was $166 thousand for the fiscal year ended March 31, 2015 compared to $102 thousand in the prior year period.

Liquidity and Capital Resources

Liquidity is a measure of the Bank's ability to generate adequate cash to meet its financial obligations. The principal cash requirements of a financial institution are to cover potential deposit outflows, fund increases in its loan and investment portfolios and ongoing operating expenses. The Bank's primary sources of funds are deposits, borrowed funds and principal and interest payments on loans, mortgage-backed securities and investment securities. While maturities and scheduled amortization of loans, mortgage-backed securities and investment securities are predictable sources of funds, deposit flows and loan and mortgage-backed securities prepayments are strongly influenced by changes in general interest rates, economic conditions and competition. Carver Federal monitors its liquidity utilizing guidelines that are contained in a policy developed by its management and approved by its Board of Directors. Carver Federal's several liquidity measurements are evaluated on a frequent basis. The Bank was in compliance with this policy as of March 31, 2015.

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. 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 increased $13.0 million during fiscal year 2015 as the Bank increased its borrowings to fund loan growth in the fourth quarter. At March 31, 2015, the Bank had $25.0 million in borrowings with a weighted average rate of 1.5% maturing over the next three years. The continued disruption in the credit markets has not materially impacted the Company's ability to access borrowings. At March 31, 2015, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional $6.1 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 March 31, 2015 and 2014, assets qualifying for short-term liquidity, including cash and cash equivalents, totaled $51.0 million and $122.6 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 to deposit outflows.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During fiscal year 2015, total cash and cash equivalents decreased by $71.6 million to $51.0 million reflecting cash used in investing activities of $106.8 million, offset by cash provided by financing activities of $31.4 million and cash provided by operating activities of $3.8 million.

Net cash used in investing activities of $106.8 million was primarily the result of outflows related to loan purchases of $87.3 million, loan originations of $66.8 million, and purchase of securities of $28.2 million. This activity was offset primarily by inflows of $59.1 million in principal collections on loans and $17.1 million in proceeds from investments. Net cash provided by financing activities of $31.4 million resulted from an increase in deposits of $18.4 million, and an increase in FHLB-NY advances and other borrowings of $13.0 million. Net cash provided by operating activities was $3.8 million.

Potential 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 (GSE's). The Bank may be required to repurchase these loans in the event of breaches of these representations and warranties. In the event of 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, and 2014, three, ten and six loans, respectively, that had been sold to FNMA were repurchased by the Bank. During fiscal 2015, one loan that had been sold to FNMA was repurchased by the Bank. At March 31, 2015 the Bank continues to service 152 loans with a principal balance of $27.5 million for FNMA that were sold with standard representations and warranties.

Management has established a representation and warranty reserve for losses associated with the repurchase of mortgage loans sold by the Bank to FNMA that we consider to be both probable and reasonably estimable. These reserves are reported in the consolidated statement of financial condition as a component of other liabilities. The reserves totaled $406 thousand as of March 31, 2015.

The table below summarizes changes in our representation and warranty reserves in fiscal 2015:

$ in thousands	March 31, 2015
Representation and warranty repurchase reserve, as of March 31, 2014 (1)	$287
Net provision for repurchase losses (2)	119
Net realized losses (2)	—
Representation and warranty repurchase reserve, as of March 31, 2015 (1)	$406

(1) Reported in consolidated statements of financial condition as a component of other liabilities.
(2) Component of other non-interest expense.

Additional information related to the representation and warranty reserve, including factors that may impact the adequacy of the reserves and the ultimate amount of losses incurred is found in “Note 14 Commitments and Contingencies.”

Off-Balance Sheet Arrangements and Contractual Obligations

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers and in connection with its overall investment strategy. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are not recorded in the consolidated financial statements. Such instruments primarily include lending obligations, including commitments to originate mortgage and consumer loans and to fund unused lines of credit.

The Bank has contractual obligations related to operating leases as well as a contingent liability related to a standby letter of credit. See Note 14 of Notes to Consolidated Financial Statements for the Bank's outstanding lending commitments and contractual obligations at March 31, 2015.

The Bank has contractual obligations at March 31, 2015 as follows:

$ in thousands	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations:					
FHLB advances	$65,000	$40,000	$—	$25,000	$—
Guaranteed preferred beneficial interest in junior subordinated debentures	18,403	—	—	5,000	13,403
Total long-term debt obligations	83,403	40,000	—	30,000	13,403
Operating lease obligations:					
Lease obligations for rental properties	8,584	1,515	2,673	1,988	2,408
Total contractual obligations	$91,987	$41,515	$2,673	$31,988	$15,811

Variable Interest Entities

The Company's subsidiary, Carver Statutory Trust I, is not consolidated with Carver Bancorp Inc. for financial reporting purposes in accordance with the FASB's ASC Topic 810 regarding the consolidation of variable interest entities (formerly FIN 46(R)). Carver Statutory Trust I was formed in 2003 for the purpose of issuing $13.0 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 ("Capital Securities") and $0.4 million of common securities (which are the only voting securities of Carver Statutory Trust I), which are 100% owned by Carver Bancorp Inc., and using the proceeds to acquire Junior Subordinated Debentures issued by Carver Bancorp, Inc. Carver Bancorp, Inc. has fully and unconditionally guaranteed the Capital Securities along with all obligations of Carver Statutory Trust I under the trust agreement relating to the Capital Securities.

The Bank's subsidiary, CCDC, was formed to facilitate its participation in local economic development and other community-based activities. In June 2006, CCDC was selected by the Treasury Department, in a highly competitive process, to receive an award of $59 million in New Markets Tax Credit ("NMTC"). CCDC won a second NMTC award of $65 million in May 2009, and a third award of $25 million in August 2011. The 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. The Bank recorded $625 thousand NMTC fee income in fiscal year 2013.

In December 2010, the Bank divested its interest in the remaining $7.8 million NMTC tax credits that it would have received through the period ending March 31, 2014, by exchanging its equity interests in the special purpose entity that acquired the equity interest. In addition, Carver still provides funding to the 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 the activities of these special purpose entities that significantly impact the entities' performance, and therefore are not the primary beneficiaries of these entities. The Bank has a contingent obligation to reimburse the investors for any loss or shortfall incurred as a result of the NMTC project not being in compliance with certain regulations that would void the investor's ability to otherwise utilize tax credits stemming from the award.

As of March 31, 2015, all three allocation awards have been fully utilized in qualifying projects.

The Bank's VIEs, consolidated and unconsolidated, in which the Company holds significant variable interests or has continuing involvement through servicing a majority of assets in a VIE are presented in the table below.

	Involvement with SPE (000s)					Funded Exposure		Unfunded Exposure		Total
	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments (1)	Funding Commitments	Maximum exposure to loss	
Carver Statutory Trust I	$—	$—	$ —	$ 13,400	$ 13,400	$13,000	$400	$—	$—	$13,400
CDE 1-9, CDE 11-12	—	40,000	14,186	—	14,186	—	—	—	7,800	7,800
CDE 10	1,700	19,000	—	8	8	—	—	—	7,410	7,410
CDE 13	500	10,500	—	10,567	10,567	—	1	—	4,095	4,096
CDE 14	400	10,000	—	10,034	10,034	—	1	—	3,900	3,901
CDE 15, CDE 16, CDE 17	900	20,500	—	20,711	20,711	—	2	—	7,995	7,997
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,169	5,170
CDE 19	500	10,746	—	10,922	10,922	—	1	—	4,191	4,192
CDE 20	625	12,500	—	12,219	12,219	—	1	—	4,875	4,876

CDE 21	625	12,500	—	12,271	12,271	—	1	—	4,875	4,876
Total	$5,850	$149,000	$ 14,186	$ 103,414	$ 117,600	$13,000	$408	$—	$50,310	$63,718

Regulatory Capital Position

The Bank must satisfy minimum capital standards established by the OCC. For a description of the OCC capital regulation, see “Item 1-Regulation and Supervision-Federal Banking Regulation-Capital Requirements.”

At March 31, 2015, the Bank had a common equity Tier 1 ratio, Tier 1 leverage ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio of 15.10%, 10.85%, 15.10% and 16.78%, respectively. For additional information regarding Carver Federal's Regulatory Capital and Ratios, refer to Note 11 of Notes to Consolidated Financial Statements, “Stockholders' Equity.”

Impact of Inflation and Changing Prices

The financial statements and accompanying notes appearing elsewhere herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of Carver Federal's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a greater impact on Carver Federal's performance than do the effects of the general level of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Recently Issued but not yet Adopted Accounting Standards

In January 2014, the FASB issued ASU No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments clarify when an in-substance repossession or foreclosure occurs, and require disclosure of both the amount of foreclosed residential real estate property held by a creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for annual periods, and interim periods within annual periods beginning after December 15, 2015. The adoption of ASU 2014-04 is not expected to have a material impact on the Company's consolidated statement of financial condition or results of operations. At March 31, 2015, Carver had 11 loans secured by one-to-four family residential real estate in the process of foreclosure for a total outstanding balance of $1.9 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Carver Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of Carver Bancorp, Inc. and subsidiaries (the Company) as of March 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the two-year period ended March 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carver Bancorp, Inc. and subsidiaries as of March 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2015, in conformity with U.S. generally accepted accounting principles.

New York, New York
June 29, 2015

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

$ in thousands except per share data	March 31, 2015	March 31, 2014
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$44,864	$115,239
Money market investments	6,128	7,315
Total cash and cash equivalents	50,992	122,554
Restricted cash	6,354	6,354
Investment securities:		
Available-for-sale, at fair value	101,185	89,461
Held-to-maturity, at amortized cost (fair value of $12,231 and $8,971 at March 31, 2015 and March 31, 2014, respectively)	11,922	9,029
Total investments	113,107	98,490
Loans held-for-sale (“HFS”)	2,576	5,011
Loans receivable:		
Real estate mortgage loans	412,204	362,888
Commercial business loans	70,555	26,930
Consumer loans	434	138
Loans, net	483,193	389,956
Allowance for loan losses	(4,477)	(7,233)
Total loans receivable, net	478,716	382,723
Premises and equipment, net	7,075	7,830
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	3,519	3,101
Accrued interest receivable	2,781	2,557
Other assets	11,266	11,218
Total assets	$676,386	$639,838
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Savings	$95,009	$98,051
Non-interest bearing checking	50,731	53,232
Interest-bearing checking	30,860	24,271
Money market	148,702	127,655
Certificates of deposit	202,459	206,157
Total deposits	527,761	509,366
Advances from the FHLB-NY and other borrowed money	83,403	70,403
Other liabilities	10,243	8,900
Total liabilities	$621,407	$588,669
EQUITY		
Preferred stock (par value $0.01 per share: 45,118 Series D shares, with a liquidation preference of $1,000 per share, issued and outstanding)	45,118	45,118
Common stock (par value $0.01 per share: 10,000,000 shares authorized; 3,698,031 and 3,697,836 shares issued; 3,696,087 and 3,695,892 shares outstanding at March 31, 2015	61	61

and March 31, 2014, respectively)		
Additional paid-in capital	55,468	56,114
Accumulated deficit	(44,206)	(44,570)
Treasury stock, at cost (1,944 shares at March 31, 2015 and March 31, 2014)	(417)	(417)
Accumulated other comprehensive loss	(1,045)	(4,768)
Total equity attributable to Carver Bancorp, Inc.	54,979	51,538
Non-controlling interest	—	(369)
Total equity	54,979	51,169
Total liabilities and equity	$676,386	$639,838

See accompanying notes to consolidated financial statements

54

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended March 31,	
$ in thousands except per share data	2015	2014
Interest income:		
Loans	$19,974	$20,734
Mortgage-backed securities	799	1,034
Investment securities	1,339	1,321
Money market investments	215	159
Total interest income	22,327	23,248
Interest expense:		
Deposits	2,853	2,797
Advances and other borrowed money	1,089	1,154
Total interest expense	3,942	3,951
Net interest income	18,385	19,297
Recovery of loan losses	(3,010)	(426)
Net interest income after recovery of loan losses	21,395	19,723
Non-interest income:		
Depository fees and charges	3,595	3,452
Loan fees and service charges	708	970
Gain on sale of securities, net	8	552
Gain (loss) on sale of loans, net	(2)	1,319
Gain (loss) on real estate owned, net	5	(257)
Lower of cost or market adjustment on loans held-for-sale	(28)	(231)
Other	1,282	1,001
Total non-interest income	5,568	6,806
Non-interest expense:		
Employee compensation and benefits	11,588	11,802
Net occupancy expense	3,839	4,039
Equipment, net	900	983
Data processing	733	1,072
Consulting fees	952	506
Federal deposit insurance premiums	603	1,236
Other	8,099	7,735
Total non-interest expense	26,714	27,373
Income (loss) before income taxes	249	(844)
Income tax expense	166	102
Consolidated net income (loss)	83	(946)
Less: Net loss attributable to non-controlling interest	(281)	(110)
Net income (loss) attributable to Carver Bancorp, Inc.	$364	$(836)
Earnings (loss) per common share:		
Basic	$0.10	$(0.23)
Diluted	$0.10	$(0.23)

See accompanying notes to consolidated financial statements

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

	Years Ended March 31,	
$ in thousands	2015	2014
Net income (loss) attributable to Carver Bancorp, Inc.	$364	$(836)
Other comprehensive income (loss), net of tax:		
Change in unrealized gain (loss) of securities available-for-sale	3,731	(5,282)
Change in pension obligations	—	71
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax	8	552
Reclassification adjustment for termination of pension plan, net of tax	—	(1,148)
Total other comprehensive income (loss), net of tax	3,723	(4,615)
Total comprehensive income (loss), net of tax attributable to Carver Bancorp, Inc.	$4,087	$(5,451)

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

$ in thousands	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Equity
Balance—March 31, 2013	45,118	61	55,708	(44,439)	(417)	563	141	56,735
Pension plan adjustment [1]	—	—	—	716	—	(716)	—	—
Net loss	—	—	—	$(836)	—	—	—	(836)
Other comprehensive income, net of tax	—	—	—	—	—	(4,615)	—	(4,615)
Transfer between non-controlling and controlling interest	—	—	400	—	—	—	(400)	—
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(110)	(110)
Treasury stock activity	—	—	6	(11)	—	—	—	(5)
Balance—March 31, 2014	45,118	61	56,114	(44,570)	(417)	(4,768)	(369)	51,169
Net income	—	—	—	364	—	—	—	364
Other comprehensive loss, net of tax	—	—	—	—	—	3,723	—	3,723
Transfer of ownership from non-controlling interest [2]	—	—	(650)	—	—	—	650	—
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(281)	(281)
Stock based compensation expense	—	—	4	—	—	—	—	4
Balance—March 31, 2015	$45,118	$61	$55,468	$(44,206)	$(417)	$(1,045)	$ —	$54,979

[1] Adjustment reflected within total equity relating to the accounting for pension plans under ASC 715-30. Refer to notes 1, 13 and 18 for further detail.
[2] Carrying amount of non-controlling interest adjusted to reflect the transfer of ownership interest under ASC 810.

See accompanying notes to consolidated financial statements

57

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

$ in thousands	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) before attribution of non-controlling interest	$83	$(946)
Net loss attributable to non-controlling interest, net of taxes	(281)	(110)
Net income (loss) attributable to Carver Bancorp, Inc.	364	(836)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Recovery of loan losses	(3,010)	(426)
Pension plan termination cost	—	1,148
Stock based compensation expense	2	2
Depreciation and amortization expense	1,052	1,079
Market adjustment on real estate owned	(216)	—
Gain (loss) on real estate owned	(5)	257
Gain on sale of securities, net	(8)	(552)
(Loss) gain on sale of loans, net	2	(1,319)
Market adjustment on held-for-sale loans	28	231
Amortization and accretion of loan premiums and discounts and deferred charges, net	(1,216)	(2,280)
Amortization and accretion of premiums and discounts - securities, net	223	(176)
Proceeds from sale of loans held-for-sale	—	21,614
Assets repurchased from third parties	(174)	(2,116)
Increase in accrued interest receivable	(224)	(310)
(Increase) decrease in other assets	4,872	(207)
(Decrease) increase in other liabilities	2,143	(563)
Net cash provided by operating activities	3,833	15,546
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities: Available-for-sale	(28,200)	(35,180)
Proceeds from principal payments, maturities, calls and sales of securities: Available-for-sale	16,209	51,592
Proceeds from principal payments, maturities and calls of securities: Held-to-maturity	886	5,105
Originations of loans held-for-investment	(66,783)	(68,450)
Loans purchased from third parties	(87,292)	(54,459)
Principal collections on loans	59,097	89,570
Proceeds on sale of loans	—	398
Decrease (increase) in restricted cash	—	4,311
Redemption (purchase) of FHLB-NY stock	(418)	402
Purchase of premises and equipment	(289)	(305)
Proceeds from sale of real estate owned	—	1,727
Net cash used in provided by investing activities	(106,790)	(5,289)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	18,395	13,651
Net increase (decrease) in FHLB-NY advances and other borrowings	13,000	(6,000)
Net cash provided by (used in) financing activities	31,395	7,651
Net (decrease) increase in cash and cash equivalents	(71,562)	17,908
Cash and cash equivalents at beginning of period	122,554	104,646
Cash and cash equivalents at end of period	$50,992	$122,554

Supplemental cash flow information:		
Noncash financing and investing activities		
Transfer of loans held-for-investment to loans held-for-sale	$—	$12,717
Transfer into real estate owned	$2,775	$954
Cash paid for:		
Interest	$3,474	$3,576
Income taxes	$161	$130

See accompanying notes to consolidated financial statements

58

CARVER BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

Nature of operations

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

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

In September 2003, the Company formed Carver Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures of the Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidations,” Carver Statutory Trust I is unconsolidated for financial reporting purposes.

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

On February 7, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (the "Bank Order" and the “Company Order,” respectively, and together the "Orders") with the Office of Thrift Supervision ("OTS"). The OTS issued these Orders based upon its findings that the Company was operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it was operating with an excessive level of adversely classified assets, and earnings inadequate to augment its capital. Effective July 21, 2011, supervisory authority for the Company Order passed to the Board of Governors of the Federal Reserve System and supervisory authority for the Bank Order passed to the Office of the Comptroller of the Currency ("OCC"). On November 3, 2014, the OCC notified the Bank that the OCC had determined that the Bank had satisfied all of the requirements of the Bank Order and directed that the Bank Order be terminated. In addition, the OCC notified the Bank that the OCC had determined that the Bank was no longer in "troubled condition" and was relieved of all prior conditions imposed on the Bank by the OTS as a result of its troubled condition designation. The Company Order has not been terminated.

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

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

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

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

Revisions

Carver Federal had a non-contributory defined benefit pension plan covering all who were participants prior to curtailment of the plan during the fiscal year ended March 31, 2001. The benefits were based on each employee's term of service through the date of curtailment. Carver Federal's policy was to fund the plan with contributions which equal the maximum amount deductible for federal income tax purposes. The plan was terminated in December 2013 and the Company initially recorded a pension cost of $432 thousand in the third quarter of fiscal 2014. Subsequently, the Company determined that there was an error in the pension cost initially recorded. As a result, the Company recorded an additional charge of $716 thousand and adjusted its third quarter results reported in the Form 10-K for the year ended March 31, 2014. The Company also reclassified $716 thousand from accumulated deficit to accumulated other comprehensive loss in its fiscal year 2014 statement of changes in equity to correct the Company's accounting for benefit plans upon adoption and implementation of ASC 715-30 in the March 31, 2014 Form 10-K. Management determined that financial statements were not materially misstated as a result of these adjustments and, as such, concluded it was appropriate to adjust for these items in the March 31, 2014 Form 10-K rather than restating the December 31, 2013 Form 10-Q. Refer to note 18 for further detail on the the Company's unaudited quarterly financial data.

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). 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. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, valuation of real estate owned, realization of deferred tax assets, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future writedowns of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

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

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

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, amounts due from depository institutions, federal funds sold and other short-term instruments with original maturities of three months or less. Federal funds sold are generally sold for one-day periods. The amounts due from depository institutions include a non-interest bearing account held at the Federal Reserve Bank where any additional cash reserve required on demand deposits would be maintained. Currently, this reserve requirement is zero since the Bank's vault cash satisfies cash reserve requirements for deposits.

Investment Securities

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

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

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

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

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized holding loss. Unrealized holding gains or losses for securities available-for-sale are excluded from earnings and reported net of deferred income taxes in accumulated other comprehensive loss, a component of Stockholders' Equity. Following Financial Accounting Standards Board ("FASB") guidance, the amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the 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. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss).

During fiscal years 2015 and 2014, no other-than-temporary impairment charges were recorded. Gains or losses on sales of securities of all classifications are recognized based on the specific identification method.

Loans Held-for-Sale

Loans are only moved to held-for-sale classification upon the determination by Carver to sell a loan. Held-for-sale loans are carried at the lower of cost or market value. The initial charge-off, if any is required, will be taken upon the move to held-for-sale and absorbed through Carver's loan loss reserve. The need for further charge-offs is periodically evaluated if the loan remains classified as held-for-sale for an extended period of time using the valuation methodologies identified below. Any subsequently required charge-off is processed as a mark-to-market adjustment. The valuation methodology for loans held-for-sale varies based upon the circumstances. Held-for-sale values may be based upon accepted offer amounts, appraised value of underlying mortgaged premises, prior loan loss experience of Carver in connection with recent loan sales for the loan type in question, and/or other acceptable valuation methods.

Loans Receivable

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

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

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

If the Bank determines that there is an impairment dollar amount, the Bank next determines whether the amount of impairment is permanent. The amount of impairment determined to be permanent is charged off within the given fiscal quarter. All other amounts are recorded as a specific valuation allowance ("SVA") reserve. Generally the amount of the loan and negative escrow in excess of the appraised value, for the fair value of collateral valuation method, is determined to be permanent and charged off. The amount attributable to the expected cost to sell, is recorded as a specific valuation allowance. In the event the

Bank is using the collateral dependent determination for the dollar amount of impairment and the Bank does not have an accepted appraisal (for example, the Bank may utilize a broker's price opinion), the Bank generally will treat all dollar amounts identified as impaired to be other than a permanent impairment and the full impaired amount will be recorded as a specific valuation allowance. For impairment amounts calculated utilizing the present value of expected future cash flows, the dollar amount of impairment is recorded as a specific valuation allowance.

Allowance for Loan and Lease Losses ("ALLL")

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

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is significant judgment applied in estimating the ALLL. These assumptions and estimates are susceptible to significant changes from period to period. 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
- SBA Loans
- Other (Consumer and Overdraft Accounts)

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

- Pass
- Special Mention
- Substandard
- Doubtful

The Bank next applies to each pool a risk factor that determines the level of general reserves for the 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. The Bank generally considers coverage of one year's losses an appropriate benchmark for most pools of loans because the probable loss on any given pool should ordinarily become apparent in that time frame. In some instances, the Bank may be able, however, to demonstrate a reliance on an LEP less than 12 months coverage based upon adequate management information systems and effective methodologies for estimating losses. However, in some instances, such as in its Commercial Real Estate, Multifamily and Business segments the Bank demonstrates a reliance on a LEP in excess of 12 months. The Bank also recognizes losses in accordance with regulatory charge-off criteria.

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

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

Specific Reserve Allowance

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

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

The institution 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 troubled debt restructurings (“TDRs”). If it is determined that it is probable the Bank will be unable to collect all amounts due according with the contractual terms of the loan agreement, the loan is categorized as impaired.

If the loan is determined to be not impaired, it is then placed in the appropriate pool of criticized 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.

Representation and Warranty Reserve

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.

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 our consolidated statement of financial condition as a component of other liabilities. The calculation of the reserve is based on estimates, which are uncertain, and require the application of judgment. In establishing the reserves, we consider a variety of factors, including those loans that are under review by FNMA that have not yet received a repurchase request. The Bank tracks the FNMA claims monthly and evaluates the reserve on a quarterly basis.

Segment Reporting

The Company has determined that all of its activities constitute one reportable operating segment.

Concentration of Risk

The Bank's principal lending activities are concentrated in loans secured by real estate, a substantial portion of which is located in New York City. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in New York's real estate market conditions.

Office Properties and Equipment

Office properties and equipment are comprised of land, at cost, and buildings, building improvements, furnishings and equipment and leasehold improvements, at cost less accumulated depreciation and amortization. Depreciation and amortization charges are computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 to 25 years
Furnishings and equipment	3 to 5 years
Leasehold improvements	Lesser of useful life or remaining term of lease

Maintenance, repairs and minor improvements are charged to non-interest expense in the period incurred.

Federal Home Loan Bank Stock

The FHLB-NY has assigned to the Bank a mandated membership stock purchase, based on the Bank's asset size. In addition, for all borrowing activity, the Bank is required to purchase shares of FHLB-NY non-marketable capital stock at par. Such shares are redeemed by FHLB-NY at par with reductions in the Bank's borrowing levels. On a quarterly basis, these shares are evaluated for other-than-temporary impairment. We do not consider these shares to be other-than-temporarily impaired at March 31, 2015. The Bank carries this investment at historical cost.

Mortgage Servicing Rights

All separately recognized servicing assets are included in Other Assets and measured at fair value.

Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at the lower of loan carrying amount or the fair value at the date of acquisition less estimated selling costs. At the time of origination 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. The fair value of such assets is determined based primarily upon independent appraisals and other relevant factors. The amounts ultimately recoverable from real estate owned could differ from the net carrying value of these properties because of economic conditions. Costs incurred to improve properties or prepare them for sale are capitalized. Revenues and expenses related to the holding and operating of properties are recognized in operations as earned or incurred. Gains or losses on sale of properties are recognized as incurred.

Income Taxes

The Company records income taxes in accordance with ASC 740 “Income Taxes,” as amended, using the asset and liability method. Income tax expense (benefit) consists of income taxes currently payable (receivable) and deferred income taxes. Temporary differences between the basis of assets and liabilities for financial reporting and tax purposes are measured as of the balance sheet date. Deferred tax liabilities or recognizable deferred tax assets are calculated on such differences, using current statutory rates, which result in future taxable or deductible amounts. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Where applicable, deferred tax assets are reduced by a valuation allowance for any portion determined not likely to be realized. Generally, this valuation allowance would subsequently be adjusted by a charge or credit to income tax expense as changes in facts and circumstances warrant. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Any interest expense or penalties would be recorded as interest expense.

Earnings (Loss) per Common Share

Basic earnings (loss) per share (“EPS”) is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per common share includes any additional common shares as if all potentially dilutive common shares were issued (for instance, stock options with an exercise price that is less than the average market price of the common shares for the periods stated).

Preferred and Common Dividends

The Company is prohibited from paying any dividends without prior regulatory approval pursuant to the terms of the Cease and Desist Orders to which it is subject, and is generally subject to regulations governing the payment of dividends. See Item 1 - Business - Regulation and Supervision - Cease and Desist Orders and - Capital and Liquidity. As previously disclosed in a Form 8-K filed with the SEC on October 29, 2010, the Company's Board of Directors announced that based on highly uncertain economic conditions and the desire to preserve capital, the Company had suspended payment of the quarterly cash dividend on its common stock. There are no assurances that the payments of common stock dividends will resume.

Treasury Stock

Treasury stock is recorded at cost and is presented as a reduction of stockholders' equity.

Pension Plans

The Company's pension obligations, and the related costs, are calculated using actuarial concepts within the framework of the FASB guidance. The measurement of such obligations and expenses requires that certain assumptions be made regarding several factors, most notably including the discount rate and the expected return on plan assets. The Company evaluates these critical assumptions on an annual basis. Other factors considered by the Company include retirement patterns, mortality, and turnover.

Actuarial gain and losses, prior services cost or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in accumulated other comprehensive income (loss), net of tax effects, until they are amortized as a component of net of periodic benefit cost. In addition, the measurement date (i.e., the date at which plan assets and the benefit obligation are measured for financial reporting purposes) is required to be the company's fiscal year-end.

NMTC fee income

The fee income the Company receives related to the transfers of its New Market Tax Credits varies with each transaction but all are similar in nature. There are two basic types of fees associated with these transactions. The first is a “sub-allocation fee” that is paid to CCDC when the tax credits are allocated to a subsidiary entity at the time a qualified equity investment is made. This fee is recognized by the Company at the time of allocation. The second type of fee is paid to cover the administrative and servicing costs associated with CCDC's compliance with NMTC reporting requirements. This fee is recognized as the services are rendered.

Reclassifications

Certain amounts in the consolidated financial statements presented for prior years have been reclassified to conform to the current year presentation.

Impact of Recent Accounting Standards Not Yet Adopted

In January 2014, the FASB issued ASU No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments clarify when an in-substance repossession or foreclosure occurs, and require disclosure of both the amount of foreclosed residential real estate property held by a creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for annual periods, and interim periods within annual periods beginning after December 15, 2015. The adoption of ASU 2014-04 is not expected to have a material impact on the Company's consolidated statement of financial condition or results of operations. At March 31, 2015, Carver had 11 loans secured by one-to-four family residential real estate in the process of foreclosure for a total outstanding balance of $1.9 million.

NOTE 3. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank’s asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC 320-10-25 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At March 31, 2015, $101.2 million, or 89.5%, of the Bank’s mortgage-backed and other investment securities were classified as available-for-sale, and the remaining $11.9 million, or 10.5%, were classified as held-to-maturity. The Bank had no securities classified as trading at March 31, 2015.

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2015:

$ in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$5,575	$9	$(57)	$5,527
Federal Home Loan Mortgage Corporation	10,705	10	(127)	10,588
Federal National Mortgage Association	10,925	35	(103)	10,857
Other	47	—	—	47
Total mortgage-backed securities	27,252	54	(287)	27,019
U.S. Government Agency Securities	58,464	48	(662)	57,850
Other investments	16,514	—	(198)	16,316
Total available-for-sale	102,230	102	(1,147)	101,185
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	3,100	232	—	3,332
Federal National Mortgage Association	8,655	77	—	8,732
Total held-to-maturity mortgage-backed securities	11,755	309	—	12,064
Other investments	167	—	—	167
Total held-to-maturity	11,922	309	—	12,231
Total securities	$114,152	$411	$(1,147)	$113,416

The following table sets forth the amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at March 31, 2014:

$ in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$5,972	$—	$(307)	$5,665
Federal Home Loan Mortgage Corporation	12,160	—	(564)	11,596
Federal National Mortgage Association	10,897	—	(466)	10,431
Other	49	—	—	49
Total mortgage-backed securities	29,078	—	(1,337)	27,741
U.S. Government Agency Securities	55,155	—	(2,966)	52,189
Other investments	10,000	—	(469)	9,531
Total available-for-sale	94,233	—	(4,772)	89,461
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	3,743	225	—	3,968
Federal National Mortgage Association	5,079	—	(283)	4,796
Total held-to-maturity mortgage-backed securities	8,822	225	(283)	8,764
Other investments	207	—	—	207
Total held-to-maturity	9,029	225	(283)	8,971
Total securities	$103,262	$225	$(5,055)	$98,432

The following is a summary regarding proceeds from securities sales of the available-for-sale and held-to-maturity portfolios for the years ended March 31:

$ in thousands	2015	2014	2013
Available-for-Sale:			
Proceeds	$994	$38,991	$31,567
Gross gains	8	513	174
Gross losses	—	2	—
Held-to-Maturity:			
Proceeds	—	2,814	—
Gross gains	—	43	—
Gross losses	—	2	—

There were no sales of held-to-maturity securities in fiscal years 2015 or 2013. In fiscal 2014, $2.8 million of held-to-maturity securities were sold, generating net gains of $41 thousand. These securities had been classified as matured under ASC Topic 320, as the principal repayments exceeded 85% of the initial principal. The net unrealized loss on available-for-sale securities was $1.0 million at March 31, 2015, compared to $4.8 million at March 31, 2014.

The Bank's investment portfolio is comprised primarily of fixed-rate mortgage-backed securities guaranteed by a Government Sponsored Enterprise (“GSE”) as issuer and Agency securities. Carver maintains a portfolio of mortgage-backed securities in the form of Government National Mortgage Association (“GNMA”) pass-through certificates, Federal National Mortgage Association (“FNMA”) and Federal Home Loan Mortgage Corporation (“FHLMC”) participation certificates. GNMA pass-through certificates are guaranteed as to the payment of principal and interest by the full faith and credit of the United States Government, while FNMA and FHLMC certificates are each guaranteed by their respective agencies as to principal and interest. Based on the high quality of the Bank's investment portfolio, current market conditions have not significantly impacted the pricing of the portfolio or the Bank's ability to obtain reliable prices.

At March 31, 2015 the Bank pledged securities of $42.2 million as collateral for advances from the FHLB-NY.

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at March 31, 2015 for less than 12 months and 12 months or longer:

$ in thousands	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$—	$—	$(287)	$22,297	$(287)	$22,297
U.S. Government Agency Securities	(57)	12,943	(605)	26,400	(662)	39,343
Other investments [1]	—	—	(198)	9,802	(198)	9,802
Total available-for-sale securities	(57)	12,943	(1,090)	58,499	(1,147)	71,442
Total securities	$(57)	$12,943	$(1,090)	$58,499	$(1,147)	$71,442

The following table sets forth the unrealized losses and fair value of securities in an unrealized loss position at March 31, 2014 for less than 12 months and 12 months or longer:

$ in thousands	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$(322)	$7,569	$(1,015)	$20,123	$(1,337)	$27,692

U.S. Government Agency Securities	(1,646	)	34,074		(1,320	)	18,115		(2,966	)	52,189	
Other investments [1]	(469	)	9,531		—		—		(469	)	9,531	
Total available-for-sale securities	(2,437	)	51,174		(2,335	)	38,238		(4,772	)	89,412	
Held-to-Maturity:												
Mortgage-backed securities	(283	)	4,796		—		—		(283	)	4,796	
Total held-to-maturity securities	(283	)	4,796		—		—		(283	)	4,796	
Total securities	$(2,720	)	$55,970		$(2,335	)	$38,238		$(5,055	)	$94,208	

[1] CRA fund comprised of over 95% agency securities

A total of 23 securities had an unrealized loss at March 31, 2015 compared to 34 at March 31, 2014. The majority of the securities in an unrealized loss position were U.S. Government Agency securities and mortgage-backed securities, representing 68.8% and 31.2% of total securities in an unrealized loss position at March 31, 2015. There were eight mortgage-backed securities and ten U.S. Government Agency securities in an unrealized loss position that had an unrealized loss for more than 12 months at March 31, 2015. The cause of the temporary impairment is directly related to changes in interest rates. In general, as interest rates decline, the fair value of securities will rise, and conversely as interest rates rise, the fair value of securities will decline. Management considers fluctuations in fair value as a result of interest rate changes to be temporary, which is consistent with the Bank's experience. The impairments are deemed temporary based on the direct relationship of the rise in fair value to movements in interest rates, the life of the investments and their high credit quality. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, the risk of credit loss is minimal. Management believes that these unrealized losses are a direct result of the current rate environment and has the ability and intent to hold the securities until maturity or the valuation recovers.

The amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Company will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). At March 31, 2015 and 2014, the Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio.

The following is a summary of the carrying value (amortized cost) and fair value of securities at March 31, 2015, 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	$5,533	$5,533	0.25	%
One through five years	16,481	16,483	1.28	%
Five through ten years	27,711	27,394	1.87	%
After ten years	52,505	51,775	1.6	%
	102,230	101,185	1.55	%
Held-to-maturity:				
Five through ten years	6,347	6,453	2.62	%
After ten years	5,575	5,778	2.70	%
	$11,922	$12,231	2.66	%

NOTE 4. LOANS RECEIVABLE, NET

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

$ in thousands	March 31, 2015 Amount	%	March 31, 2014 Amount	%
Gross loans receivable:				
One-to-four family	$125,020	26 %	$111,220	29 %
Multifamily	93,780	19 %	47,399	12 %
Commercial real estate	186,443	39 %	198,808	51 %
Construction	5,107	1 %	5,100	1 %
Business	70,679	15 %	27,149	7 %
Consumer [1]	434	— %	138	— %
Total loans receivable	481,463	100 %	389,814	100 %
Add:				
Premium on loans	2,233		957	
Less:				
Deferred fees and loan discounts, net	(503)		(815)	
Allowance for loan losses	(4,477)		(7,233)	
Total loans receivable, net	$478,716		$382,723	
Loans held-for-sale	$2,576		$5,011	

[1] Includes personal loans

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

Mortgage loan portfolios serviced for Federal National Mortgage Association ("FNMA") and other third parties are not included in the accompanying consolidated financial statements. The unpaid principal balances of these loans aggregated $30.6 million, $33.6 million and $37.4 million at March 31, 2015, 2014, and 2013, respectively.

At March 31, 2015 the Bank pledged $58.4 million in total mortgage loans as collateral for advances from the FHLB-NY.

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the fiscal year ended March 31, 2015:

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$3,377	$308	$1,835	$—	$1,705	$8	$7,233
Charge-offs	687	—	—	—	320	279	1,286
Recoveries	380	83	256	—	816	5	1,540
Provision for (Recovery of) Loan Losses	(1,081)	143	(1,062)	99	(1,388)	279	(3,010)
Ending Balance	$1,989	$534	$1,029	$99	$813	$13	$4,477
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	1,702	353	953	99	801	13	3,921
Allowance for Loan Losses Ending Balance:	287	181	76	—	12	—	556

individually evaluated for impairment							
Loan Receivables Ending Balance	$126,527	$94,706	$185,851	$5,076	$70,599	$434	$483,193
Ending Balance: collectively evaluated for impairment	119,480	93,218	183,230	5,076	65,243	434	466,681
Ending Balance: individually evaluated for impairment	7,047	1,488	2,621	—	5,356	—	16,512

70

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the fiscal year ended March 31, 2014:

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$3,496	$408	$3,298	$—	$3,759	$28	$10,989
Charge-offs	2,887	98	574	—	966	15	4,540
Recoveries	534	31	—	149	486	10	1,210
Provision for (Recovery of) Loan Losses	2,234	(33)	(889)	(149)	(1,574)	(15)	(426)
Ending Balance	$3,377	$308	$1,835	$—	$1,705	$8	$7,233
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	2,857	216	1,580	—	941	8	5,602
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	520	92	255	—	764	—	1,631
Loan Receivables Ending Balance	$112,191	$47,525	$198,101	$5,070	$26,931	$138	$389,956
Ending Balance: collectively evaluated for impairment	105,719	45,285	189,317	5,070	21,926	137	367,454
Ending Balance: individually evaluated for impairment	6,472	2,240	8,784	—	5,005	1	22,502

The following is an analysis of the allowance for loan losses for the years ended March 31:

$ in thousands	2015	2014	2013
Balance at beginning of the year	$7,233	$10,989	$19,821
Charge-offs of loans	(1,286)	(4,540)	(5,903)
Recoveries of amounts previously charged off	1,540	1,210	398
Recovery of loan losses	(3,010)	(426)	(3,327)
Balance at end of the year	$4,477	$7,233	$10,989

At March 31, 2015, 2014 and 2013, the recorded investment in impaired loans was $16.5 million, $22.5 million and $31.0 million, respectively. The related allowance for loan losses for these impaired loans was approximately $0.6 million, $1.6 million and $2.3 million at March 31, 2015, 2014 and 2013, respectively. Interest income of $585 thousand, $713 thousand and $3.2 million for fiscal year 2015, 2014 and 2013, respectively, would have been recorded on impaired loans had they performed in accordance with their original terms. At March 31, 2015, 2014 and 2013, there were no loans that were past due 90 days or more and still accruing.

The following is a summary of nonaccrual loans at March 31, 2015 and 2014.

$ in thousands	March 31, 2015	March 31, 2014
Loans accounted for on a nonaccrual basis:		

Gross loans receivable:		
One-to-four family	$3,664	$2,301
Multifamily	1,053	2,240
Commercial real estate	2,817	7,024
Business	861	993
Consumer	—	1
Total nonaccrual loans	$8,395	$12,559

Non-performing 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 non-performing loans is recorded when received based upon the collectability of the loan. Nonaccrual loans decreased $4.2 million, or 33.2%, to $8.4 million at March 31, 2015 from $12.6 million at March 31, 2014. TDR loans consist of loans where borrowers have been granted concessions in regards to the terms of their loans due to financial or other difficulties, which rendered them unable to repay their loans under the original contractual terms. Total TDR loans at March 31, 2015 were $8.2 million, $3.6 million of which were non-performing as they were either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months. At March 31, 2014, total TDR loans were $9.2 million, of which $3.0 million were non-performing.

At March 31, 2015, other non-performing assets totaled $6.9 million which consists of other real estate owned ("OREO") properties and held-for-sale loans. At March 31, 2015, other real estate owned valued at $4.3 million comprised of ten foreclosed properties, compared to $1.4 million comprised of eight properties at March 31, 2014. At March 31, 2015, held-for-sale loans totaled $2.6 million, compared to $5.0 million at March 31, 2014.

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.

As of March 31, 2015, 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
Credit Risk Profile by Internally Assigned Grade:				
Pass	$93,218	$181,340	$5,076	$62,419
Special Mention	—	1,890	—	1,065
Substandard	1,488	2,621	—	7,115
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$94,706	$185,851	$5,076	$70,599

	One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:		
Performing	$122,689	$434
Non-Performing	3,838	—
Total	$126,527	$434

As of March 31, 2014, and based on the most recent analysis performed, the risk category by class of loans is as follows:

$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$46,028	$184,850	$5,070	$20,638
Special Mention	—	7,129	—	1,295
Substandard	1,497	6,122	—	4,998
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$47,525	$198,101	$5,070	$26,931

	One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:		
Performing	$109,890	$137
Non-Performing	2,301	1
Total	$112,191	$138

The following table presents an aging analysis of the recorded investment of past due financing receivable as of March 31, 2015.

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Financing Receivables
One-to-four family	$464	$—	$3,574	$4,038	$122,489	$126,527
Multifamily	—	434	1,054	1,488	93,218	94,706
Commercial real estate	1,150	936	1,102	3,188	182,663	185,851
Construction	—	—	—	—	5,076	5,076
Business	—	—	123	123	70,476	70,599
Consumer	—	1	—	1	433	434
Total	$1,614	$1,371	$5,853	$8,838	$474,355	$483,193

The following table presents an aging analysis of the recorded investment of past due financing receivable as of March 31, 2014.

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Financing Receivables
One-to-four family	$244	$888	$1,863	$2,995	$109,196	$112,191
Multifamily	444	—	2,240	2,684	44,841	47,525
Commercial real estate	3,133	292	3,891	7,316	190,785	198,101
Construction	—	—	—	—	5,070	5,070
Business	—	131	993	1,124	25,807	26,931
Consumer	2	2	1	5	133	138
Total	$3,823	$1,313	$8,988	$14,124	$375,832	$389,956

The following tables present information on impaired loans with the associated allowance amount, if applicable, at March 31, 2015 and 2014. Management determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received under the cash basis method.

Impaired Loans by Class

	At March 31,					
	2015			2014		
$ in thousands	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:						
One-to-four family	$2,752	$3,007	$—	$639	$893	$—
Multifamily	237	237	—	—	—	—
Commercial real estate	1,880	1,880	—	3,972	4,147	—
Business	4,568	4,652	—	341	402	—
Consumer	—	—	—	1	1	—
With an allowance recorded:						
One-to-four family	4,295	4,541	286	5,833	5,958	520
Multifamily	1,251	1,349	181	2,240	2,240	92
Commercial real estate	741	741	76	4,812	5,023	255
Business	788	788	13	4,664	4,664	764
Total	$16,512	$17,195	$556	$22,502	$23,328	$1,631

The following table presents information on average balances on impaired loans and the interest income recognized for the years ended March 31, 2015, 2014 and 2013.

	For the years ended March 31,					
	2015		2014		2013	
$ in thousands	Average Balance	Interest Income recognized	Average Balance	Interest Income recognized	Average Balance	Interest Income recognized
With no specific allowance recorded:						
One-to-four family	$1,669	$17	$1,541	$12	$1,215	$47
Multifamily	222	—	729	17	308	5
Commercial real estate	1,670	83	7,941	227	9,865	235
Construction	—	—	393	—	1,230	53
Business	3,903	215	1,508	14	1,136	41
With an allowance recorded:						
One-to-four family	5,158	104	5,290	142	5,363	57
Multifamily	1,255	24	513	—	—	—
Commercial real estate	—	—	3,991	43	6,302	133
Business	855	18	3,899	212	4,932	254
Total	$14,732	$461	$25,805	$667	$30,351	$825

In certain circumstances, loan modifications involve a troubled borrower to whom the Bank may grant a modification. Situations around modifications involving troubled borrowers may include extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, reduction in the face amount of the debt or reduction of past accrued interest. In cases where the Bank grants any significant concessions to a troubled borrower, the Bank accounts for the modification as a TDR under ASC Subtopic 310-40 and the related allowance under ASC Section 310-10-35. 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.

The following table presents an analysis of those loan modifications that were classified as TDRs during the twelve month periods ended March 31, 2015 and March 31, 2014:

	Modifications to loans during the years ended March 31,									
	2015					2014				
$ in thousands	Number of loans	Pre-modification outstanding recorded investment	Post-Modification Recorded investment	Pre-Modification rate	Post-Modification rate	Number of loans	Pre-modification outstanding recorded investment	Post-Modification Recorded investment	Pre-Modification rate	Post-Modification rate
One-to-four family	1	43	43	12.00 %	12.00 %	2	747	867	5.51 %	4.69 %
Commercial real estate	1	860	860	6.60 %	6.60 %	—	—	—		
Business	2	788	788	8.25 %	8.25 %	1	844	719	6.00 %	6.00 %
Total	4	$ 1,691	$ 1,691			3	$ 1,591	$ 1,586		

In an effort to proactively manage delinquent loans, Carver has selectively extended to certain borrowers concessions such as extensions, rate reductions or forbearance agreements. For the fiscal year ended March 31, 2015, two loans of $860 thousand and $788 thousand were extended and one loan of $43 thousand was modified with interest rate concessions. For the fiscal year ended March 31, 2014, two loans of $747 thousand were modified with interest rate concessions and one loan of $844 thousand was extended.
There were no loans at March 31, 2015 and March 31, 2014 that had been modified and subsequently defaulted.

For the fiscal year ended March 31, 2015, there were 12 loans in the TDR portfolio totaling $4.6 million that were on accrual status as the Company has determined that the future collection of the principal and interest is reasonably assured. This generally represents those borrowers who have performed according to the restructured terms for a period of at least six months. At March 31, 2014, there were 14 loans in the performing TDR portfolio totaling $6.3 million.

At March 31, 2015, the Bank had one Regulation O loan of $1.5 million to a director. There were no loans to officers or directors of the Company at March 31, 2014.

NOTE 5. OFFICE PROPERTIES AND EQUIPMENT, NET

The details of office properties and equipment as of March 31 are as follows:

$ in thousands	2015	2014
Land	$155	$155
Building and improvements	10,469	8,319
Leasehold improvements	8,064	7,231
Furniture, equipment, and other	12,399	11,724
	31,087	27,429
Less accumulated depreciation and amortization	(24,012)	(19,599)
Office properties and equipment, net	$7,075	$7,830

Depreciation and amortization charged to operations for fiscal years 2015, 2014 and 2013 amounted to $1.1 million, $1.1 million and $1.2 million, respectively.

NOTE 6. ACCRUED INTEREST RECEIVABLE

The details of accrued interest receivable as of March 31 are as follows:

$ in thousands	2015	2014
Loans receivable	$2,337	$2,139

Mortgage-backed securities	99	99
Investments and other interest-bearing assets	345	319
Total accrued interest receivable	$2,781	$2,557

NOTE 7. DEPOSITS

Deposit balances and weighted average stated interest rates as of March 31 are as follows:

	2015			2014		
$ in thousands	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
Non-interest-bearing demand	$50,731	9.61 %	— %	$53,232	10.45 %	— %
Interest-bearing checking	30,860	5.85	0.16	24,271	4.76	0.16
Savings	95,009	18.00	0.27	98,051	19.26	0.27
Money market savings account	148,702	28.18	0.49	127,655	25.06	0.46
Certificates of deposit	200,123	37.92	0.93	203,907	40.03	1.01
Mortgagors deposits	2,336	0.44	1.53	2,250	0.44	1.73
Total	$527,761	100.00 %	0.55 %	$509,366	100.00 %	0.59 %

Scheduled maturities of certificates of deposit for the year ended March 31, 2015 are as follows:

$ in thousands	Period to Maturity					
Rate	< 1 Yr.	1-2 Yrs.	2-3 Yrs.	3+ Yrs.	Total 2015	Percent of Total
0% - 0.99%	$86,119	$5,653	$4,063	$9,977	$105,812	52.87 %
1% - 1.99%	19,925	22,810	27,801	7,886	78,422	39.19
2% - 3.99%	11,223	4,494	9	159	15,885	7.94
4% and over	—	—	—	4	4	—
Total	$117,267	$32,957	$31,873	$18,026	$200,123	100.00 %

The following table represents the amount of certificates of deposit of $100,000 or more at March 31, 2015 maturing during the periods indicated:

$ in thousands	
Maturing:	
April 1, 2015 to June 30, 2015	$28,701
July 1, 2015 to September 30, 2015	4,612
October 1, 2015 to March 31, 2016	55,656
April 1, 2016 and beyond	67,141
Total	$156,110

Interest expense on deposits is as follows for the years ended March 31:

$ in thousands	2015	2014	2013
Interest-bearing checking	$45	$40	$42
Savings and clubs	255	256	259
Money market savings	692	536	739
Certificates of deposit	1,836	1,938	2,441
Mortgagors deposits	30	34	37
	2,858	2,804	3,518
Penalty for early withdrawal of certificates of deposit	(5)	(7)	(10)
Total interest expense	$2,853	$2,797	$3,508

NOTE 8. BORROWED MONEY

Federal Home Loan Bank Advances, Repurchase agreements and Guaranteed Debt Securities. FHLB-NY advances weighted average interest rates by remaining period to maturity at March 31 are as follows:

76

$ in thousands	2015		2014	
Maturing Year Ended March 31,	Weighted Average Rate	Amount	Weighted Average Rate	Amount
2015	—%	$—	0.40%	$27,000
2016	0.34%	40,000	—	—
2017	—	—	—	—
2018 and after [1]	1.50%	25,000	1.50%	25,000
	0.79%	$65,000	0.93%	$52,000

[1] Effective rate is 2.13% which includes the net impact of the amortization of the termination fee on restructured borrowing.

Federal Home Loan Bank Advances. As a member of the FHLB-NY, the Bank may have outstanding FHLB-NY borrowings in a combination of term advances and overnight funds of up to 30% of its total assets, or approximately $204.0 million at March 31, 2015. Borrowings are secured by the Bank's investment in FHLB-NY stock and by a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets (principally mortgage loans and securities) not otherwise pledged. At March 31, 2015, advances were secured by pledges of the Bank's investment in the capital stock of the FHLB-NY totaling $3.5 million and a blanket assignment of the Bank's pledged qualifying mortgage loans of $58.4 million and mortgage-backed and investment securities with a market value of $42.2 million. The Bank has sufficient collateral at the FHLB-NY to be able to borrow an additional $6.1 million from the FHLB-NY at March 31, 2015. The accrued interest payable on FHLB advances was $34 thousand and the interest expense was $541 thousand for the year ended March 31, 2015. At March 31, 2014, the accrued interest payable on FHLB advances was $32 thousand and the interest expense was $603 thousand for the year ended March 31, 2014. The Bank completed a debt restructuring during the first quarter of fiscal year 2014 that allowed it to prepay a $25.0 million long-term borrowing and secure a new borrowing at a significantly lower rate. The termination fees and penalties associated with the borrowing were prepaid to the FHLB and amortized over five years.

Subordinated Debt Securities. 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. Under the Orders, the Company is prohibited from paying dividends without prior regulatory approval. Therefore the Company has deferred the debenture interest payments.

On September 30, 2009, the Bank raised $5.0 million in a private placement of subordinated debt maturing December 30, 2018. The interest rate was set at 7% per annum for the first seven years as long as there is no default event, including Carver maintaining its certification as a Community Development Entity (“CDE”) and remaining in compliance with NMTC requirements, and 12% per annum after. During the second quarter of fiscal year 2012, the interest rate was reduced to 2%. This subordinated debt has been approved by the regulators to qualify as Tier II capital for the Bank's regulatory capital calculations. Qualifying term subordinated debt must have an original weighted average maturity of at least five years. Once the term to maturity is less than five years, the amount qualified as Tier II capital declines 20% per year.

The accrued interest payable on subordinated debt securities was $1.6 million and the interest expense was $549 thousand for the year ended March 31, 2015. The accrued interest payable on subordinated debt securities was $1.2

million and the interest expense was $552 thousand for the year ended March 31, 2014.

The following table sets forth certain information regarding Carver Federal's borrowings as of and for the years ended March 31:

$ in thousands	2015	2014	2013
Amounts outstanding at the end of year:			
FHLB advances	$65,000	$52,000	$58,000
Subordinated debt securities	$18,403	$18,403	$18,403
Rate paid at year end:			
FHLB advances	0.79 %	0.93 %	1.63 %
Subordinated debt securities	2.99 %	2.99 %	2.99 %
Maximum amount of borrowing outstanding at any month end:			
FHLB advances	$65,000	$77,000	$69,011
Subordinated debt securities	$18,403	$18,403	$18,403
Approximate average amounts outstanding for year:			
FHLB advances	$28,299	$32,825	$31,531
Subordinated debt securities	$18,403	$18,403	$18,403
Approximate weighted average rate paid during year:			
FHLB advances	1.91 %	1.84 %	2.53 %
Subordinated debt securities	2.98 %	2.99 %	3.11 %

NOTE 9. INCOME TAXES

The components of income tax expense for the years ended March 31 are as follow:

$ in thousands	2015	2014	2013
Income tax expense (benefit):			
Current - Federal	$—	$(35)	$149
Current - State	166	137	179
Total income tax expense (benefit)	$166	$102	$328

There was no income tax expense attributable to equity for the three years ended March 31, 2014.

The following is a reconciliation of the expected Federal income tax rate to the consolidated effective tax rate for the years ended March 31:

	2015		2014		2013	
$ in thousands	Amount	Percent	Amount	Percent	Amount	Percent
Statutory Federal income tax expense (benefit)	$240	34.0 %	$(250)	34.0 %	$337	34.0 %
State and local income tax, net of Federal tax benefit	41	5.8	(16)	2.1	49	4.9
General business credit	(32)	(4.6)	(32)	4.4	(32)	(3.3)
Difference in rates	(1,568)	(222.4)	(1,068)	145.5	—	—
Valuation Allowance	741	105.0	(204)	27.7	795	80.3
Write off DTA due to Section 382 limitation	—	—	1,132	(154.1)	(1,363)	(137.7)
True-ups/Adjustments	743	103.6	255	(34.7)	524	53.1
Other	1	2.2	285	(38.8)	18	1.8
Total income tax expense	$166	23.6 %	$102	(13.9)%	$328	33.1 %

Carver Federal's operating results includes a $166 thousand tax expense for the fiscal year ended March 31, 2015, which included a $741 thousand change in the valuation allowance. For the fiscal year ended March 31, 2014, the total income tax expense of $102 thousand included a $204 thousand change in the valuation allowance. For the fiscal year ended March 31, 2013, the total income tax expense of $328 thousand included a $795 thousand change in the valuation allowance taken on the Bank's deferred tax assets.

Tax effects of existing temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are included in other assets at March 31 as follows:

$ in thousands	2015	2014
Deferred Tax Assets:		
Allowance for loan losses	$1,681	$2,373
Deferred loan costs, net	(162)	193
Nonaccrual loan interest	68	64
Purchase accounting adjustment	23	44
Net operating loss carryforward	17,394	15,181
New markets tax credit	2,207	2,175
Depreciation	977	782
Market value adjustment on HFS loans	464	752
Unrealized loss on available-for-sale securities	448	1,908
Other	947	577
Total Deferred Tax Assets	24,047	24,049
Deferred Tax Liabilities:		
Income from affiliate	671	(46)
Total Deferred Tax Liabilities	671	(46)
Deferred Tax Assets, net	23,376	24,095
Valuation Allowance	(23,376)	(24,095)
Deferred Tax Assets, net of valuation allowance	$—	$—

On June 29, 2011, the Company raised $55.0 million of equity. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carryforwards, general business credits, and recognized built-in losses upon a change in ownership. The Company expects to be subject to an annual limitation of approximately $0.9 million. The Company has a net deferred tax asset ("DTA") of approximately $29.2 million. Based on management's calculations, the Section 382 limitation has resulted in previous reductions of the deferred tax asset of $5.8 million. A full valuation allowance for the remaining net deferred tax asset of $23.4 million has been recorded.

At March 31, 2015, the Company had net operating carryforwards for federal purposes of approximately $33.9 million, for state purposes of approximately $52.7 million and for city purposes of approximately $47.2 million which are available to offset future federal, state and city income and which expire over varying periods from March 2028 through March 2034.

The Company has no uncertain tax positions. The Company and its subsidiaries are subject to federal, New York State and New York City income taxation. The Company is no longer subject to examination by taxing authorities for years before March 31, 2008. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination; with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

NOTE 10. EARNINGS (LOSS) PER COMMON SHARE

The following table reconciles the earnings (loss) available to common shareholders (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted earnings (loss) per share for years ended March 31:

$ in thousands except per share data	2015	2014	2013
Net income (loss) attributable to Carver Bancorp, Inc.	$364	$(836)	$662
Less: Capital Purchase Program "CPP" Preferred Dividends	—	—	—
Net income (loss) available to common shareholders of Carver Bancorp, Inc.	$364	$(836)	$662
Weighted average common shares outstanding – basic	3,696,359	3,696,149	3,695,625
Effect of dilutive MRP shares	253	507	1,775
Weighted average common shares outstanding – diluted	3,696,612	3,696,656	3,697,400
Basic earnings (loss) per common share	$0.10	$(0.23)	$0.18
Diluted earnings (loss) per common share	$0.10	$(0.23)	$0.18

NOTE 11. STOCKHOLDERS' EQUITY

Conversion and Stock Offering. On October 24, 1994, the Bank issued in an initial public offering 2,314,375 shares of common stock, par value $0.01 (the “Common Stock”), at a price of $10 per share resulting in net proceeds of $21.5 million. As part of the initial public offering, the Bank established a liquidation account at the time of conversion, in an amount equal to the surplus and reserves of the Bank at September 30, 1994. In the unlikely event of a complete liquidation of the Bank (and only in such event), eligible depositors who continue to maintain accounts shall be entitled to receive a distribution from the liquidation account. The total amount of the liquidation account may be decreased if the balances of eligible deposits decreased as measured on the annual determination dates. The Bank is not permitted to pay dividends to the Company on its capital stock if the effect thereof would cause its net worth to be reduced below either: (i) the amount required for the liquidation account, or (ii) the amount required for the Bank to comply with applicable minimum regulatory capital requirements.

Regulatory Capital. The operations and profitability of the Bank are significantly affected by legislation and the policies of the various regulatory agencies. In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule established a new common equity Tier 1 minimum capital requirement of 4.5% of risk-weighted assets, and increased the minimum Tier 1 capital to risk-based assets requirement from 4% to 6% of risk-weighted assets. The final rule became effective for the Bank on January 1, 2015. In assessing an institution's capital adequacy, the OCC takes into consideration not only these numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual institutions where necessary. Carver Federal, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed these minimum requirements and that are consistent with Carver Federal's risk profile. The previously described Cease and Desist Order Carver Federal entered into with the OCC included a capital directive requiring the Bank to achieve and maintain minimum regulatory capital levels of a Tier 1 leverage ratio of 9% and a total risk-based capital ratio of 13% by April 30, 2011. The Bank Order was lifted on November 3, 2014. At March 31, 2015, the Bank's capital level exceeded the regulatory requirements with a Tier 1 leverage ratio of 10.85%, total risk-based capital ratio of 16.78% and a Tier 1 risk-based capital ratio of 15.10%.

On June 29, 2011, the Company raised $55 million of capital. The $55 million resulted in a $51.4 million increase in liquidity net of the effect of various expenses associated with the capital raise. On June 30, 2011, the Company downstreamed $37 million to the Bank. During December 2011, the Company downstreamed another $7 million to the Bank. The remainder of the net capital raised is retained by the Company for future strategic purposes or to downstream into the Bank, if necessary. No assurances can be given that the amount of capital raised is sufficient to absorb the losses emanating from the Bank's loan portfolio. Should the losses be greater than expected, additional capital may be necessary in the future.

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

The table below presents the capital position of the Bank at March 31, 2015 and 2014.

	At March 31, 2015							
	Tier 1 Leverage		Common Tier 1		Tier 1 Risk-Based Capital		Total Risk-Based Capital	
($ in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Regulatory capital	$67,244	10.85 %	$67,244	15.10 %	$67,244	15.10 %	$74,738	16.78 %
Minimum capital requirement	24,793	4.00 %	20,045	4.50 %	26,727	6.00 %	35,636	8.00 %
Excess	42,451	6.85 %	47,199	10.60 %	40,517	9.10 %	39,102	8.78 %

	At March 31, 2014					
	Tier 1 Leverage		Tier 1 Risk-Based Capital		Total Risk-Based Capital	
($ in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Regulatory capital	$66,648	10.38 %	$66,648	17.55 %	$76,429	20.12 %
Minimum capital requirement	57,771	9.00 %	49,382	13.00 %	49,382	13.00 %
Excess	8,877	1.38 %	17,266	4.55 %	27,047	7.12 %

NOTE 12. OTHER COMPREHENSIVE (LOSS) INCOME

The following tables set forth changes in each component of accumulated other comprehensive (loss) income, net of tax for the years ended March 31, 2015 and 2014:

$ in thousands	At March 31, 2014	Other Comprehensive Income	At March 31, 2015
Net unrealized gain (loss) on securities available-for-sale	$(4,768)	$3,723	$(1,045)
Accumulated other comprehensive loss	$(4,768)	$3,723	$(1,045)

$ in thousands	At March 31, 2013	Pension Plan Adjustment	Other Comprehensive Income	At March 31, 2014
Net unrealized gain (loss) on securities available-for-sale	$1,064	$—	$(5,832)	$(4,768)
Net unrealized loss on pension liability	(501)	(716)	1,217	—
Accumulated other comprehensive income (loss)	$563	$(716)	$(4,615)	$(4,768)

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

	For the Twelve Months Ended March 31,		Affected Line Item in the Consolidated Statement of Operations
$ in thousands	2015	2014	
Reclassification adjustment for sales of available for-sale securities, net of tax	$8	$552	Gain on sale of securities, net
Reclassification adjustment for termination of pension plan, net of tax	—	(1,148)	Employee compensation and benefits
Total reclassifications for the period	$8	$(596)	

Comprehensive Income (Loss). Comprehensive income (loss) represents net income (loss) and certain amounts reported directly in stockholders' equity, such as net unrealized gain or loss on securities available-for-sale and loss on pension obligations. The Company has reported its comprehensive income (loss) for fiscal years 2015 and 2014 in the Consolidated Statements of Comprehensive Income (Loss). Carver Federal's accumulated other comprehensive income (loss) included net unrealized gains on securities of $3.7 million at March 31, 2015 and net unrealized losses on securities of $5.8 million at March 31, 2014.

NOTE 13. EMPLOYEE BENEFIT AND STOCK COMPENSATION PLANS

Pension Plan. Carver Federal had a non-contributory defined benefit pension plan covering all who were participants prior to curtailment of the plan during the fiscal year ended March 31, 2001. The benefits were based on each employee's term of service through the date of curtailment. Carver Federal's policy was to fund the plan with contributions which equal the maximum amount deductible for federal income tax purposes. The plan was terminated in December 2013 and the Company initially recorded a pension cost of $432 thousand in the third quarter of fiscal 2014. Subsequently, the Company determined that there was an error in the pension cost initially recorded. As a result, the Company recorded an additional charge of $716 thousand and adjusted its third quarter fiscal 2014 results. The Company also reclassified $716 thousand from accumulated deficit to accumulated other comprehensive loss in its fiscal year 2014 statement of changes in equity to correct the Company's accounting for benefit plans upon adoption and implementation of ASC 715-30.

The following table sets forth the plan's changes in benefit obligation, changes in plan assets and funded status and amounts recognized in Carver Federal's consolidated financial statements at March 31:

$ in thousands	2015	2014
Change in benefit obligation:		
Benefit obligation at the beginning of year	$—	$2,426
Interest cost	—	61
Actuarial gain	—	(165)
Benefits paid	—	(2,497)
Settlements	—	175
Benefit obligation at end of year	$—	$—
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$—	$2,023
Actual return on plan assets	—	120
Contributions	—	354
Benefits paid	—	(97)
Settlements	—	(2,400)
Fair value of plan assets at end of year	$—	$—
Funded status	$—	$—
Accrued pension cost	$—	$—

Net periodic pension cost includes the following components for the years ended March 31:

$ in thousands	2015	2014	2013
Interest cost	$—	$61	$106
Unrecognized loss	—	34	45
Settlement charge	—	1,180	100
Expected return on plan assets	—	(106)	(176)
Net periodic pension cost	$—	$1,169	$75

Significant actuarial assumptions used in determining plan benefits for the years ended March 31 are as follows:

	2015	2014	2013
Annual salary increase [1]	—	—	—
Expected long-term return on assets	N/A	N/A	8.00 %
Discount rate used in measurement of benefit obligations	N/A	N/A	3.75 %

(1) The annual salary increase rate is not applicable as the plan is frozen and no new benefits accrue.

Directors' Retirement Plan. Concurrent with the conversion to the stock form of ownership, Carver Federal adopted a retirement plan for non-employee directors. The plan was curtailed during the fiscal year ended March 31, 2001. The benefits are payable based on the term of service as a director through the date of curtailment. As of March 31, 2015, there was no outstanding payable under this plan.

Savings Incentive Plan. Carver has a savings incentive plan, pursuant to Section 401(k) of the Code, for all eligible employees of the Bank. The Bank matches contributions to the 401(k) Plan equal to 100% of pre-tax contributions made by each employee up to a maximum of 3% of their pay, subject to IRS limitations. All such matching contributions are fully vested and non-forfeitable at all times regardless of the years of service with the Bank.

Under the profit-sharing feature, if the Bank achieves a minimum of 70% of its net income goal as mentioned previously, the Compensation Committee may authorize an annual non-elective contribution to the 401(k) Plan on behalf of each eligible employee up to 2% of the employee's annual pay, subject to IRS limitations. This non-elective contribution may be made regardless of whether the employee makes a contribution to the 401(k) Plan. Non-elective Bank contributions, if awarded, vest 20% each year for the first five years of employment and are fully vested thereafter.

To be eligible for the matching contribution, the employee must be 21 years of age and have completed at least three months of service. To be eligible for the non-elective Carver contribution, the employee must also be employed as of the last day of the plan year.

Management Recognition Plan (“MRP”). The MRP provided for grants of restricted stock to certain employees at September 12, 1995 adoption of the MRP. On March 28, 2005 the plan was amended for all future awards. The MRP provides for additional discretionary grants of restricted stock to those employees selected by the committee established to administer the MRP. Awards granted prior to March 28, 2005, generally vest in three to five equal annual installments commencing on the first anniversary date of the award, provided the recipient is still an employee of the Company or the Bank on such date. Under the amended plan, awards granted after March 28, 2005 vest based on a five-year performance-accelerated vesting schedule. Ten percent of the awarded shares vest in each of the first four years and the remainder in the fifth year but the Compensation Committee may accelerate vesting at any time. Awards will become 100% vested upon termination of service due to death or disability. When shares become vested and are distributed, the recipients will receive an amount equal to any accrued dividends with respect thereto. There are no shares available to grant under the MRP. Pursuant to the MRP, the Bank recognized $10 thousand, $27 thousand and $65 thousand as expense for fiscal year 2015, 2014 and 2013, respectively.

Stock Option Plans. During 1995, the Company adopted the 1995 Stock Option Plan (the “1995 Plan”) to advance the interests of the Bank through providing stock options to select key employees and directors of the Bank and its affiliates. The number of shares reserved for issuance under the plan was 22,591. The 1995 plan expired by its term and no new options may be granted under it, however, stock options granted under the 1995 Plan continue in accordance with their terms. At March 31, 2015, there were 1,104 options outstanding and 1,104 were exercisable. Options are granted at the fair market value of Carver Federal common stock at the time of the grant for a period not to exceed ten years. Under the 1995 Plan option grants generally vest on an annual basis ratably over either three or five years, commencing after one year of service and, in some instances, portions of option grants vest at the time of the grant. On March 28, 2005, the plan was amended and vesting of future awards is based on a five-year performance-accelerated vesting schedule. Ten percent of the awarded options vest in each of the first four years and the remainder in the fifth year, but the Committee may accelerate vesting at any time. All options are exercisable immediately upon a participant's disability, death or a change in control, as defined in the Plan.

In September 2006, Carver stockholders approved the 2006 Stock Incentive Plan (the "2006 Incentive Plan") which provides for the grant of stock options, stock appreciation rights and restricted stock to employees and directors who are selected to receive awards by the Committee. The 2006 Incentive Plan authorizes Carver to grant awards with respect to 20,000 shares, but no more than 10,000 shares of restricted stock may be granted. Options are granted at a price not less than fair market value of Carver common stock at the time of the grant for a period not to exceed 10 years. Shares generally vest in 20% increments over 5 years, however, the Committee may specify a different vesting schedule. At March 31, 2015, there were 1,925 options outstanding under the 2006 Incentive Plan and 1,898 were exercisable. All options are exercisable immediately upon a participant's disability, death or a change in control, as defined in the 2006 Incentive Plan, if the person is employed on that date.

In September 2014, Carver stockholders approved the Carver Bancorp, Inc. 2014 Equity Incentive Plan (the "2014 Incentive Plan") which provides for the grant of stock options, stock appreciation rights and restricted stock to executive officers and directors who are selected to receive awards by the Committee. The 2014 Incentive Plan authorizes Carver to grant awards with respect to 250,000 shares. All of the shares may be issued pursuant to stock options (all of which may be incentive stock options) or all of which may be issued pursuant to restricted stock awards or restricted stock units. Unless the Committee determines otherwise, the award agreements will specify that no award will vest more rapidly than 25% per year over a four-year period, with the first installment vesting one year after the date of grant, subject to acceleration upon the occurrence of specific events. At March 31, 2015, there were no options outstanding and no restricted stock awards issued under the 2014 Incentive Plan. All options are exercisable immediately upon a participant's disability, death or change in control, as defined in the 2014 Incentive Plan, if the person is employed on that date.

Information regarding stock options as of and for the years ended March 31 is as follows:

	2015		2014		2013	
	Options [1]	Weighted Average Exercise Price	Options [1]	Weighted Average Exercise Price	Options [1]	Weighted Average Exercise Price
Outstanding, beginning of year	4,029	258.16	5,362	$255.17	7,362	$235.00
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Expired/Forfeited	1,000	294.45	1,333	246.15	2,000	180.90
Outstanding, end of year	3,029	246.18	4,029	258.16	5,362	255.17
Exercisable, at year end	3,002		3,975		5,229	

[1] Options for all periods presented reflects a 1-for-15 reverse stock split which was effective on October 27, 2011

Information regarding stock options as of and for the year ended March 31, 2015 is as follows :

Range of Exercise Prices		Options Outstanding			Options Exercisable	
		Shares	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$90.00	$104.85	134	5.36	$97.50	107	$97.50
240.00	254.85	1,899	2.78	250.61	1,899	16.71
255.00	269.85	996	1.18	257.63	996	257.63
Total		3,029			3,002	

There were no stock options awarded to employees during the years ended March 31, 2015, 2014 and 2013.

The fair value of the option grants was estimated on the date of the grant using the Black-Scholes option pricing model applying the following weighted average assumptions for the years ended March 31:

	2015	2014	2013
Risk-free interest rate	N/A	N/A	N/A
Volatility	N/A	N/A	N/A
Annual dividends	N/A	N/A	N/A
Expected life of option grants	N/A	N/A	N/A

The Company recorded compensation expense of $2 thousand in fiscal 2015 and $2 thousand in fiscal 2014.

Performance Compensation Plan. In 2006, Carver adopted the Performance Compensation Plan of Carver Bancorp, Inc. (the "Performance Compensation Plan"). This Performance Compensation Plan provides for cash payments to officers or employees designated by the Compensation Committee, which also determines the amount awarded to such participants. Vesting is generally 20% a year over 5 years and awards are fully vested on a change in control (as defined), or termination of employment by death or disability, but the Committee may accelerate vesting at any time. Payments are made as soon as practicable after the end of the fiscal year in which amounts vest. In fiscal year 2008, the Company granted its first awards under the new Performance Compensation Plan. No compensation expense was recognized in fiscal year 2015 and $8 thousand was recognized in 2014.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Credit Related Commitments. 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's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies making commitments as it does for on-balance-sheet instruments.

The Bank had outstanding lending commitments and contractual obligations at March 31 as follows:

$ in thousands	2015	2014
Commitments to fund mortgage loans	$30,972	$5,750
Commitments to fund commercial and consumer loans	8,963	—
Lines of credit	5,355	6,140
Letters of credit	234	245
	$45,524	$12,135

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the counterparty.

Mortgage Representation & 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 (GSE's). 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.

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, 2014 (1)	$2,075
Gross new demands received	129
Loans repurchased/made whole	(129)
Principal payments received on open claims	(30)
Open claims as of March 31, 2015 (1)	$2,045

(1) 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.

The table below summarizes changes in our representation and warranty reserves during fiscal 2015.

$ in thousands	March 31, 2015
Representation and warranty repurchase reserve, as of March 31, 2014 (1)	$287
Net provision for repurchase losses (2)	119
Net realized losses (2)	—
Representation and warranty repurchase reserve, as of March 31, 2015 (1)	$406

[1] Reported in consolidated statements of financial condition as a component of other liabilities.
[2] Component of other non-interest expense.

Lease Commitments. Rentals under long-term operating leases for certain branches aggregated approximately $1.6 million, $1.5 million and $1.8 million for fiscal years 2015, 2014, and 2013, respectively. As of March 31, 2015, minimum rental

commitments under all non-cancelable leases with initial or remaining terms of more than one year and expiring through 2025 follow:
$ in thousands

Year Ending March 31,	Minimum Rental	Sublet Income	Net
2015	$1,558	$—	$1,558
2016	1,515	—	1,515
2017	1,543	—	1,543
2018	1,130	—	1,130
2019	1,032	—	1,032
Thereafter	3,364	—	3,364
	$10,142	$—	$10,142

The Bank also has, in the normal course of business, commitments for services and supplies.

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

In accordance with ASC Topic 450, Carver has accrued $30,000 for these lawsuits.

NOTE 15. FAIR VALUE MEASUREMENTS

On April 1, 2008, the Company adopted ASC Topic 820 which, among other things, defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. ASC 820 clarifies that fair value is an "exit" price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1— Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2— Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3— Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following table presents, by valuation hierarchy, assets that are measured at fair value on a recurring basis as of March 31, 2015 and 2014, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

$ in thousands	Fair Value Measurements at March 31, 2015, 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	$—	$—	$210	$210
Investment securities				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—	5,527	—	5,527
Federal Home Loan Mortgage Corporation	—	10,588	—	10,588
Federal National Mortgage Association	—	10,857	—	10,857
Other	—	—	47	47
U.S. Government Agency securities	—	57,850	—	57,850
Other investments	—	16,316	—	16,316
Total available-for-sale securities	—	101,138	47	101,185
Total assets	$—	$101,138	$257	$101,395

$ in thousands	Fair Value Measurements at March 31, 2014, 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	$—	$—	265	$265
Investment securities				
Available-for-sale:				
Mortgage-backed securities:				
Government National Mortgage Association	—	5,665	—	5,665
Federal Home Loan Mortgage Corporation	—	11,596	—	11,596
Federal National Mortgage Association	—	10,431	—	10,431
Other	—	—	49	49
U.S. Government Agency securities	—	52,189	—	52,189
Other investments	—	9,531	—	9,531
Total available-for-sale securities	—	89,412	49	89,461
Total assets	$—	$89,412	$314	$89,726

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights ("MSR") and other available-for-sale securities. Level 3 assets accounted for 0.04% of the Company's total assets at March 31, 2015 and 2014.

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

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

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

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

In the period ended March 31, 2015, there were no transfers of investments between the Level 1 and Level 2 categories.

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

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

The following table includes a rollforward of assets classified by the Company within Level 3 of the valuation hierarchy for the years ended March 31, 2015 and 2014:

$ in thousands	Beginning balance, April 1, 2014	Total Realized/Unrealized Gains/(Losses) Recorded in Income [1]	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, March 31, 2015	Change in Unrealized Gains/(Losses) Related to Instruments Held at March 31, 2015
Securities Available-for-Sale	$49	$ —	$ (2)	$—	$47	$—
Mortgage Servicing Rights	265	(55)	—	—	210	(51)

$ in thousands	Beginning balance, April 1, 2013	Total Realized/Unrealized Gains/(Losses) Recorded in Income [1]	Issuances / (Settlements)	Transfers to/(from) Level 3	Ending balance, March 31, 2014	Change in Unrealized Gains/(Losses) Related to Instruments Held at March 31, 2014
Securities Available-for-Sale	$50	$ —	$ (1)	$—	$49	—
Mortgage Servicing Rights	275	(10)	—	—	265	(7)

[1] Includes net servicing cash flows and the passage of time.

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g. when there is evidence of impairment). The following table presents assets and liabilities that were measured at fair value on a non-recurring basis as of March 31, 2015 and 2014, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

88

	Fair Value Measurements at March 31, 2015, Using			
$ in thousands	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Loans held-for-sale	$—	$2,576	$—	$2,576
Impaired loans with a specific reserve allocated	$—	$—	$6,519	$6,519
Other real estate owned	$—	$4,341	$—	$4,341

	Fair Value Measurements at March 31, 2014, Using			
$ in thousands	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Loans held-for-sale	$—	$5,011	$—	$5,011
Impaired loans with a specific reserve allocated	$—	$—	$8,115	$8,115
Other real estate owned	$—	$1,369	$—	$1,369

Loans held-for-sale are carried at the lower of cost or market value. The valuation methodology for loans held-for sale for the period ended March 31, 2015 was based upon amounts offered, or other acceptable valuation methods and, in some instances, prior loan loss experience of Carver in connection with recent note sales.

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 16. 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 March 31 are as follows:

	March 31, 2015				
$ in thousands	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$50,992	$50,992	$50,992	$—	$—
Restricted cash	6,354	6,354	—	6,354	—
Securities available-for-sale	101,185	101,185	—	101,138	47
FHLB Stock	3,519	3,519	—	3,519	—
Securities held-to-maturity	11,922	12,231	—	12,231	—
Loans receivable	478,716	485,458	—	—	485,458
Loans held-for-sale	2,576	2,576	—	2,576	—
Accrued interest receivable	2,781	2,781	—	2,781	—
Mortgage servicing rights	210	210	—	—	210
Financial Liabilities:					
Deposits	$527,761	$511,160	$309,897	$201,263	$—
Advances from FHLB of New York	65,000	65,827	—	65,827	—
Other borrowed money	18,403	18,931	—	18,931	—

	March 31, 2014				
$ in thousands	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$122,554	$122,554	$122,554	$—	$—
Restricted cash	6,354	6,354	—	6,354	—
Securities available-for-sale	89,461	89,461	—	89,412	49
FHLB Stock	3,101	3,101	—	3,101	—
Securities held-to-maturity	9,029	8,971	—	8,971	—
Loans receivable	382,723	382,604	—	—	382,604
Loans held-for-sale	5,011	5,011	—	5,011	—
Accrued interest receivable	2,557	2,557	—	2,557	—
Mortgage servicing rights	265	265	—	—	265
Financial Liabilities:					
Deposits	$509,366	$493,922	$287,767	$206,155	$—
Advances from FHLB of New York	52,000	53,294	—	53,294	—
Other borrowed money	18,403	18,915	—	18,915	—

Cash and Cash Equivalents

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

Restricted Cash

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

Securities

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

FHLB Stock

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

Loans Receivable

The fair value of loans receivable is estimated by discounting future cash flows, using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities of such loans. The method used to estimate the fair value of loans is extremely sensitive to the assumptions and estimates used. While management has attempted to use assumptions and estimates that best reflect the Company's loan portfolio and current market conditions, a greater degree of objectivity is inherent in these values than in those determined in active markets. The loan valuations thus determined do not necessarily represent an “exit” price that would be achieved in an active market. Loans receivable are classified as Level 3.

Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or market value and are classified as Level 2. The valuation methodology for loans held-for-sale are based upon amounts offered or other acceptable valuation methods and, in some instances, prior loan loss experience of Carver in connection with recent note sales.

Accrued Interest Receivable

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

Mortgage Servicing Rights

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

Deposits

The fair value of demand, savings and club accounts is equal to the amount payable on demand at the reporting date. These deposits are classified as Level 1. The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities resulting in a Level 2 classification. The fair value estimates do not include the benefit that results from the low-cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.

Advances from FHLB-NY and Other Borrowed Money

The fair values of advances from the Federal Home Loan Bank of New York and other borrowed money are estimated using the rates currently available to the Bank for debt with similar terms and remaining maturities and are classified as Level 2.

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

The fair value of the commitments to extend credit was estimated to be immaterial as of March 31, 2015 and March 31, 2014. The fair value of commitments to extend credit and standby letters of credit was evaluated using fees currently charged to enter into similar agreements, taking into account the risk characteristics of the borrower, and estimated to be insignificant as of the reporting date.

NOTE 17. VARIABLE INTEREST ENTITIES

The Company's subsidiary, Carver Statutory Trust I, is not consolidated with Carver Bancorp, Inc. for financial reporting purposes. Carver Statutory Trust I was formed in 2003 for the purpose of issuing $13 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 (“Capital Securities”) and $0.4 million of common securities (which are the only voting securities of Carver Statutory Trust I), which are 100% owned by Carver Bancorp, Inc., and using the proceeds to acquire Junior Subordinated Debentures issued by Carver Bancorp, Inc. Carver Bancorp, Inc. has fully and unconditionally guaranteed the Capital Securities along with all obligations of Carver Statutory Trust I under the trust agreement relating to the Capital Securities.

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

The variable interest entities (“VIEs”) such as the CDEs and Carver Statutory Trust I are consolidated, as required, where Carver has controlling financial interest in these entities and is deemed to be the primary beneficiary. Carver is normally deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

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

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

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

	Involvement with SPE (000's)					Funded Exposure		Unfunded Exposure		Total
	Recognized Gain (Loss) (000's)	Total Rights transferred	Consolidated assets	Significant unconsolidated VIE assets	Total Involvement with SPE asset	Debt Investments	Equity Investments (1)	Funding Commitments	Maximum exposure to loss	
Carver Statutory Trust 1	$—	$—	$—	$ 13,400	$ 13,400	$13,000	$400	$—	$—	$13,400
CDE 1-9, CDE 11-12	—	40,000	14,186	—	14,186	—	—	—	7,800	7,800
CDE 10	1,700	19,000	—	8	8	—	—	—	7,410	7,410
CDE 13	500	10,500	—	10,567	10,567	—	1	—	4,095	4,096
CDE 14	400	10,000	—	10,034	10,034	—	1	—	3,900	3,901
CDE 15, CDE 16, CDE 17	900	20,500	—	20,711	20,711	—	2	—	7,995	7,997
CDE 18	600	13,254	—	13,282	13,282	—	1	—	5,169	5,170

CDE 19	500	10,746	—	10,922	10,922	—	1	—	4,191	4,192
CDE 20	625	12,500	—	12,219	12,219	—	1	—	4,875	4,876
CDE 21	625	12,500	—	12,271	12,271	—	1	—	4,875	4,876
Total	$5,850	$149,000	$ 14,186	$ 103,414	$ 117,600	$13,000	$408	$—	$50,310	$63,718

(1) Excludes any proceeds realized from exchange of equity interest in CDEs as detailed below.

CCDC was originally awarded $59 million of NMTC. In fiscal 2008, CCDC transferred $19 million of rights to an investor in a NMTC project. The entity was called CDE 10.

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

As a result of Carver financing the purchase note, the CDEs continue to be consolidated and the investor's equity investment of $6.7 million was reflected as non-controlling interest in the Statement of Financial Condition. The sale of the equity interest in the CDEs provides the investor with rights to the new markets tax credits on a prospective basis. A portion of non-controlling interest is transferred to the controlling interest as the investor earns the tax credits. In March 2015, the investor exercised its option to sell the equity interest in the CDEs back to Carver. Under the current arrangement, the Bank has a contingent obligation to reimburse the investor for any loss or shortfall incurred as a result of the NMTC projects not being in compliance with certain regulations that would void the investor's ability to otherwise utilize tax credits stemming from the award.

In May 2009, CCDC received a second NMTC award of $65 million. During the period from December 2009 to December 2010, CCDC transferred rights to investors in NMTC projects (entities CDE 13-19). CCDC has a contingent obligation to reimburse the investor for any losses or shortfalls 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.

In August 2011, CCDC received a third NMTC award of $25 million. In January 2012 and September 2012, CCDC transferred rights to investors in NMTC projects (CDEs 20 and 21). CCDC has a contingent obligation to reimburse the investors for any losses or shortfalls 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.

CCDC established various special purpose entities (CDEs 22-25) through which its investments in NMTC eligible activities will be conducted. As of March 31, 2015, there have been no activities in these entities.

NOTE 18. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth certain unaudited financial data for our quarterly operations in fiscal 2015 and 2014. The following information has been prepared on the same basis as the annual information presented elsewhere in this report and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the quarterly periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

$ in thousands, except per share data	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015
Fiscal 2015				
Interest income	$5,758	$5,590	$5,265	$5,714
Interest expense	(991)	(992)	(1,013)	(946)
Net interest income	4,767	4,598	4,252	4,768
Recovery of loan losses	780	713	1,151	365
Non-interest income	1,202	1,562	1,408	1,394
Non-interest expense	(6,547)	(6,753)	(6,789)	(6,622)
Income tax expense	(16)	(57)	(62)	(31)

Net loss (income) attributable to noncontrolling interest	(17)	147	151	—
Net income attributable to Carver Bancorp, Inc.	$169	$210	$111	$(126)
Earnings per common share*				
Basic	$0.05	$0.06	$0.03	$(0.03)
Diluted	$0.05	$0.06	$0.03	$(0.03)

* Difference in total earnings per share to Consolidated Statement of Operations is due to rounding

Carver Federal had a non-contributory defined benefit pension plan covering all who were participants prior to curtailment of the plan during the fiscal year ended March 31, 2001. The benefits were based on each employee's term of service through the date of curtailment. Carver Federal's policy was to fund the plan with contributions which equal the maximum amount deductible for federal income tax purposes. The plan was terminated in December 2013 and the Company initially recorded a pension cost of $432 thousand in the third quarter of fiscal 2014. Subsequently, the Company determined that there was an error in the pension cost initially recorded. As a result, the Company recorded an additional charge of $716 thousand and adjusted its third quarter results. The Company also reclassified $716 thousand from accumulated deficit to accumulated other comprehensive loss in its fiscal year 2014 statement of changes in equity to correct the Company's accounting for benefit plans upon adoption and implementation of ASC 715-30. The table below provides the individual line items as originally reported in the third quarter and their revised amounts:

$ in thousands, except per share data	June 30, 2013	September 30, 2013	December 31, 2013 (reported)	December 31, 2013 (adjusted)	March 31, 2014
Fiscal 2014					
Interest income	$5,569	$5,942	$6,004	6,004	$5,733
Interest expense	(1,009)	(977)	(979)	(979)	(986)
Net interest income	4,560	4,965	5,025	5,025	4,747
(Provision for) recovery of loan losses	(831)	505	1,052	1,052	(300)