

CARVER BANCORP INC
Form 10-Q
August 11, 2015

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

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

For the quarterly period ended June 30, 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: 1-13007

CARVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

13-3904174

(I.R.S. Employer Identification No.)

75 West 125th Street, New York, New York

(Address of Principal Executive Offices)

10027

(Zip Code)

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

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

Yes No

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

Yes No

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

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

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

Yes No

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

Class

Outstanding at August 10, 2015

Common Stock, par value \$0.01

3,696,087

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PART I. FINANCIAL INFORMATION

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

\$ in thousands except per share data	June 30, 2015 (unaudited)	March 31, 2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$43,832	\$44,864
Money market investments	1,998	6,128
Total cash and cash equivalents	45,830	50,992
Restricted cash	6,368	6,354
Investment securities:		
Available-for-sale, at fair value	86,972	101,185
Held-to-maturity, at amortized cost (fair value of \$16,669 and \$12,231 at June 30, 2015 and March 31, 2015, respectively)	16,596	11,922
Total investment securities	103,568	113,107
Loans held-for-sale ("HFS")	2,576	2,576
Loans receivable:		
Real estate mortgage loans	419,003	412,204
Commercial business loans	72,784	70,555
Consumer loans	103	434
Loans, net	491,890	483,193
Allowance for loan losses	(4,107)	(4,477)
Total loans receivable, net	487,783	478,716
Premises and equipment, net	7,016	7,075
Federal Home Loan Bank of New York ("FHLB-NY") stock, at cost	2,433	3,519
Accrued interest receivable	2,902	2,781
Other assets	12,298	11,266
Total assets	\$670,774	\$676,386
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Savings	\$94,789	\$95,009
Non-interest bearing checking	49,822	50,731
Interest-bearing checking	31,577	30,860
Money market	153,218	148,702
Certificates of deposit	215,510	200,123
Mortgagors deposit	1,664	2,336
Total deposits	546,580	527,761
Advances from the FHLB-NY and other borrowed money	58,403	83,403
Other liabilities	11,503	10,243
Total liabilities	616,486	621,407
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

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Common stock (par value \$0.01 per share: 10,000,000 shares authorized; 3,698,031 shares issued; 3,696,087 shares outstanding at June 30, 2015 and March 31, 2015, respectively)	61	61	
Additional paid-in capital	55,468	55,468	
Accumulated deficit	(44,029)	) (44,206)
Treasury stock, at cost (1,944 shares at June 30, 2015 and March 31, 2015)	(417)	) (417)
Accumulated other comprehensive loss	(1,913)	) (1,045)
Total equity	54,288	54,979	
Total liabilities and equity	\$670,774	\$676,386	

See accompanying notes to consolidated financial statements

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

	Three Months Ended June 30,	
\$ in thousands	2015	2014
Interest income:		
Loans	\$5,642	\$5,162
Mortgage-backed securities	191	206
Investment securities	341	324
Money market investments	34	66
Total interest income	6,208	5,758
Interest expense:		
Deposits	776	722
Advances and other borrowed money	282	270
Total interest expense	1,058	992
Net interest income	5,150	4,766
Provision for (recovery) loan losses	117	(781)
Net interest income after provision for loan losses	5,033	5,547
Non-interest income:		
Depository fees and charges	668	896
Loan fees and service charges	172	95
Gain on sale of securities	—	4
Gain on real estate owned	18	4
Other	335	204
Total non-interest income	1,193	1,203
Non-interest expense:		
Employee compensation and benefits	2,781	2,787
Net occupancy expense	996	885
Equipment, net	162	175
Data processing	349	277
Consulting fees	168	88
Federal deposit insurance premiums	122	238
Other	1,457	2,094
Total non-interest expense	6,035	6,544
Income before income taxes	191	206
Income tax expense	13	16
Consolidated net income	178	190
Less: Net income attributable to non-controlling interest	—	17
Net income attributable to Carver Bancorp, Inc.	\$178	\$173
Earnings per common share:		
Basic	\$0.05	\$0.05
Diluted	0.05	0.05

See accompanying notes to consolidated financial statements

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

\$ in thousands	Three Months Ended June 30,	
	2015	2014
Net income attributable to Carver Bancorp, Inc.	\$178	\$173
Other comprehensive (loss) income, net of tax:		
Change in unrealized loss of securities available-for-sale	(868	) 1,562
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax	—	4
Total other comprehensive (loss) income, net of tax	(868	) 1,558
Total comprehensive (loss) income, net of tax attributable to Carver Bancorp, Inc.	\$(690	) \$1,731

See accompanying notes to consolidated financial statements

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

For the three months ended June 30, 2015

(Unaudited)

(\$ in thousands)	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance — March 31, 2015	\$45,118	\$61	\$55,468	\$ (44,206)	\$ (417)	\$ (1,045)	\$54,979
Net income attributable to Carver Bancorp, Inc.	—	—	—	178	—	—	178
Other comprehensive income (loss), net of taxes	—	—	—	—	—	(868)	(868)
Stock based compensation expense	—	—	—	(1)	—	—	(1)
Balance — June 30, 2015	\$45,118	\$61	\$55,468	\$ (44,029)	\$ (417)	\$ (1,913)	\$54,288

See accompanying notes to consolidated financial statements

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

	Three Months Ended June 30,	
	2015	2014
(\$ in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before attribution to noncontrolling interest	\$178	\$190
Net income attributable to noncontrolling interest, net of taxes	—	17
Net income attributable to Carver Bancorp, Inc.	178	173
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	117	(781)
Stock based compensation expense	(1)	1
Depreciation and amortization expense	245	122
Gain on real estate owned	(18)	(4)
Gain on sale of securities, net	—	(4)
Amortization and accretion of loan premiums and discounts and deferred charges	(41)	(111)
Amortization and accretion of premiums and discounts — securities	(29)	66
Increase in accrued interest receivable	(121)	(33)
(Increase) decrease in other assets	(1,240)	2,303
Increase in other liabilities	1,692	1,140
Net cash provided by operating activities	782	2,872
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments: Available-for-sale	(5,118)	(5,534)
Proceeds from principal payments, maturities, calls and sales of investments: Available-for-sale	13,278	784
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	539	192
Originations of loans held-for-investment	(23,248)	(14,721)
Loans purchased from third parties	(7,416)	—
Principal collections on loans	20,682	13,519
Increase in restricted cash	(14)	—
Redemption of FHLB-NY stock	1,086	330
Purchase (Dispositions) of premises and equipment	(187)	13
Proceeds from sale of real estate owned	636	—
Net cash provided by (used in) investing activities	238	(5,417)
CASH FLOW FROM FINANCING ACTIVITIES		
Net increase in deposits	18,818	9,390
Net decrease in FHLB-NY advances and other borrowings	(25,000)	(8,000)
Net cash provided by (used in) financing activities	(6,182)	1,390
Net decrease in cash and cash equivalents	(5,162)	(1,155)
Cash and cash equivalents at beginning of period	50,992	122,554
Cash and cash equivalents at end of period	\$45,830	\$121,399
Supplemental cash flow information:		
Noncash financing and investing activities		
Transfers to real estate owned	\$—	\$2,434

Cash paid for:

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Interest	\$934	\$881
Income taxes	\$30	\$20

See accompanying notes to consolidated financial statements

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CARVER BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. ORGANIZATION

Nature of operations

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

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

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.

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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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ended March 31, 2016. The consolidated balance sheet at June 30, 2015 has been derived from the unaudited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended March 31, 2015. 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.

NOTE 3. EARNINGS PER COMMON SHARE

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

\$ in thousands except per share data	Three Months Ended	
	June 30, 2015	2014
Earnings per common share		
Net income available to common shareholders of Carver Bancorp, Inc.	\$ 178	\$ 173
Weighted average common shares outstanding	3,696,420	3,696,225

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Basic earnings per common share	\$0.05	\$0.05
Diluted earnings per common share	0.05	0.05

NOTE 4. COMMON STOCK DIVIDENDS

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As previously disclosed in a Form 8-K filed with the SEC on October 29, 2010, the Company's Board of Directors announced that, based on highly uncertain economic conditions and the desire to preserve capital, Carver suspended payment of the quarterly cash dividend on its common stock. In accordance with the Order, the Company is also prohibited from paying any dividends without prior regulatory approval, and, as such, suspended the regularly quarterly cash dividend payments on the Company's CDCI Series B preferred stock to the Treasury. On October 18, 2011, Carver received approval from the Federal Reserve Bank to pay all outstanding dividend payments (which included \$192 thousand accrued during the six month period ended September 30, 2011) on the Company's Series B preferred stock issued under the TARP CPP. There are no assurances that the payments of common stock dividends will resume.

Debenture interest payments which had previously been deferred in March 2011 and June 2011 on the Carver Statutory Trust I trust preferred securities ("TruPS") were brought current in September 2011. The Company is prohibited from making future payments without prior approval. The expense continues to be accrued and the payments remain on deferral status. The Company has requested approval from the Federal Reserve to reinstate the debenture interest payment. As of June 30, 2015, the request remains pending.

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

NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth changes in each component of accumulated other comprehensive loss, net of tax for the three months ended June 30, 2015 and 2014:

Three months ended June 30, 2015	At	Other	At
\$ in thousands	March 31, 2015	Comprehensive	June 30, 2015
		Income, net of tax	
Net unrealized loss on securities available-for-sale	\$(1,045	) \$(868	) \$(1,913
Accumulated other comprehensive loss, net of tax	\$(1,045	) \$(868	) \$(1,913

Three months ended June 30, 2014	At	Other	At
\$ in thousands	March 31, 2014	Comprehensive	June 30, 2014
		Income, net of tax	
Net unrealized loss on securities available-for-sale	\$(4,768	) \$1,558	\$(3,210
Accumulated other comprehensive loss, net of tax	\$(4,768	) \$1,558	\$(3,210

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

For the Three Months Ended June
30,