CARVER BANCORP INC
Form 10-Q
November 14, 2012

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

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

For the quarterly period ended September 30, 2012
OR

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

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

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

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

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

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

$ in thousands except per share data	September 30, 2012 (unaudited)	March 31, 2012
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$82,179	$89,872
Money market investments	9,898	1,825
Total cash and cash equivalents	92,077	91,697
Restricted cash	6,415	6,415
Investment securities:		
Available-for-sale, at fair value	114,462	85,106
Held-to-maturity, at amortized cost (fair value of $10,737 and $11,774 at September 30, 2012 and March 31, 2012, respectively)	10,038	11,081
Total investments	124,500	96,187
Loans held-for-sale (“HFS”)	26,830	29,626
Loans receivable:		
Real estate mortgage loans	343,402	367,611
Commercial business loans	36,132	43,989
Consumer loans	416	1,258
Loans, net	379,950	412,858
Allowance for loan losses	(16,408)	(19,821)
Total loans receivable, net	363,542	393,037
Premises and equipment, net	9,084	9,573
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	3,008	2,168
Accrued interest receivable	2,438	2,256
Other assets	10,380	10,271
Total assets	$638,274	$641,230
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Deposits:		
Savings	$98,615	$101,079
Non-Interest Bearing Checking	59,344	67,202
NOW	24,977	28,325
Money Market	110,206	109,404
Certificates of Deposit	213,234	226,587
Total deposits	506,376	532,597
Advances from the FHLB-NY and other borrowed money	65,414	43,429
Other liabilities	11,304	8,585
Total liabilities	583,094	584,611
Stockholders’ equity:		
Preferred stock, (par value $0.01, per share), 45,118 Series D shares, with a liquidation preference of $1,000 per share, issued and outstanding	45,118	45,118
	61	61

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

See accompanying notes to consolidated financial statements

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

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

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

[*] Common stock shares for all periods presented reflects a 1 for 15 reverse stock split which was effective on October 27, 2011 See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements

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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 subsidiaries are Carver Federal Savings Bank (the “Bank” or “Carver Federal”) and Alhambra Holding Corp, an inactive Delaware corporation. Carver Federal's wholly-owned subsidiaries are CFSB Realty Corp., Carver Community Development Corp. (“CCDC”) and CFSB Credit Corp., which is currently inactive. The Bank has a majority owned interest in Carver Asset Corporation, a real estate investment trust formed in February 2004.
“Carver,” the “Company,” “we,” “us” or “our” refers to the Company along with its consolidated subsidiaries. The Bank was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally-chartered mutual savings and loan association. The Bank converted to a federal savings bank in 1986. On October 24, 1994, the Bank converted from a mutual holding company structure to stock form and issued 2,314,275 shares of its common stock, par value $0.01 per share. On October 17, 1996, the Bank completed its reorganization into a holding company structure (the “Reorganization”) and became a wholly-owned subsidiary of the Company.
In September 2003, the Company formed Carver Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures of the Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidations,” Carver Statutory Trust I is unconsolidated for financial reporting purposes.
Carver Federal’s principal business consists of attracting deposit accounts through its branches and investing those funds in mortgage loans and other investments permitted by federal savings banks. The Bank has nine branches located throughout the City of New York that primarily serve the communities in which they operate.
On February 10, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (“Orders”) with the Office of Thrift Supervision (“OTS”). The OTS issued these Orders based upon its findings that the Company was operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it was operating with an excessive level of adversely classified assets; and earnings inadequate to augment its capital. Effective July 21, 2011, supervisory authority for the Orders passed to the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency (“OCC”). No assurances can be given that the Bank and the Company will continue to comply with all provisions of the Orders. Failure to comply with these provisions could result in further regulatory actions to be taken by the regulators.
On June 29, 2011 the Company raised $55 million of capital by issuing 55,000 shares of mandatorily convertible non-voting participating preferred stock, Series C (the “Series C preferred stock”). The issuance resulted in a $51.4 million increase in equity after considering the effect of various expenses associated with the capital raise. The capital raise enabled the Company on June 30, 2011 to make a capital injection of $37 million in the Bank. In December 2011, another $7 million capital injection was made in the Bank. The remainder of the net capital raised is retained by the Company for future strategic purposes or to down-stream into the Bank, if necessary. No assurances can be given that the amount of capital raised is sufficient to absorb the expected losses in the Bank's loan portfolio. Should the losses be greater than expected, additional capital may be necessary in the future.
On October 25, 2011 Carver's stockholders voted to approve a 1-for-15 reverse stock split. A separate vote of approval was given to convert the Series C preferred stock to non-cumulative non-voting participating preferred stock, Series D (“the Series D preferred stock”) and to common stock and to exchange the Treasury Community Development Capital Initiative (“CDCI”) Series B preferred stock for common stock.

On October 27, 2011 the 1-for-15 reverse stock split was effected, which reduced the number of outstanding shares of common stock from 2,492,415 to 166,161.
On October 28, 2011 the Treasury exchanged the CDCI Series B preferred stock for 2,321,286 shares of Carver common stock and the Series C preferred stock converted into 1,208,039 shares of Carver common stock and 45,118 shares of Series D preferred stock.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Basis of consolidated financial statement presentation

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

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

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

Investment Securities

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

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

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

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

Loans Held-for-Sale

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

Loans Receivable

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

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

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

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

Allowance for Loan and Lease Losses (“