



2012
ANNUAL REPORT

NASDAQ: **CARV**

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



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

For the fiscal year ended March 31, 2012

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

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share

(Title of Class)

NASDAQ Global Market

(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. ☐ Yes ☒ 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. ☐ Yes ☒ 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. ☒ Yes ☐ 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). ☒ Yes ☐ 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. ☐

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

As of March 31, 2012 there were 3,695,174 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, 2011 (based on the closing sales price of \$6.15 per share of the registrant's common stock on September 30, 2011) was approximately \$22,725,320.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of registrant's proxy statement for the Annual Meeting of Stockholders for the fiscal year ended March 31, 2012 are incorporated by reference into Part III of this Form 10-K.

CARVER BANCORP, INC.
2012 ANNUAL REPORT ON FORM 10-K
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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 comparable terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to the Company's financial condition, results of operations and business that are subject to various factors that could cause actual results to differ materially from these estimates. These factors include but are not limited to the following:

- the ability of the Bank and the Company to comply with regulatory orders that may be imposed upon the Bank and/or the Company and the Orders that have been imposed upon the Bank and the Company, and the effect on operations resulting from restrictions that may be set forth in the regulatory orders and that are set forth in the Orders. For additional information on the Orders refer to "Regulation and Supervision" on page 19;
- restrictions set forth in the terms of the Series D preferred stock and in the exchange agreement with the United States ("U.S.") Treasury that may limit our ability to raise additional capital;
- general economic conditions, either nationally or locally, 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;
- changes in our existing loan portfolio composition and credit quality or changes in loan loss requirements;
- 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 and Consumer Protection Act;
- 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;
- 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;
- 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 principles, policies or guidelines, which may cause changes to our financial reporting obligations;
- 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;
- the ability to attract and retain key members of management;
- the ability to realize cost efficiencies and
- the ability to utilize the New Markets Tax Credits ("NMTC").

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 its nine branches and eight 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 "Outstanding" rating, awarded by the OCC following its most recent Community Reinvestment Act (“CRA”) examination in 2009. The examination report noted that 76.1% of Carver's community development lending and 55.4% of Carver's Home-Owners Mortgage Disclosure Act (“HMDA”) reportable loan originations were within low- to moderate-income geographies, which far exceeded peer institutions. The Bank had approximately \$641.2 million in assets as of March 31, 2012 and employed approximately 136 employees as of March 31, 2012.

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 offers loan products covering a variety of asset classes, including commercial, multi-family 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 nine 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 Bronx, Kings, New York 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 had 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 by qualified borrowers. 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 mortgage banking companies, commercial banks, and savings institutions. 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 60 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 other 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, Carver Federal was selected by the United States Department of Treasury ("US Treasury") to receive an award of \$59 million in New Markets Tax Credits, ("NMTC"). In May 2009, Carver Federal won another NMTC award in the amount of \$65 million and in August 2011, Carver Federal received a third NMTC award in the amount of \$25 million. The NMTC awards are 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. The NMTC awards provide a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. In addition to the tax credit awards recognized, the Company may transfer rights to an investor in a NMTC project and recognize a gain on the transfer of rights. The Company's ability to realize the benefit of the tax credits is dependent upon the Company generating sufficient taxable income. As of March 31, 2012, the 2006 and 2009 awards allocations have been fully utilized in qualifying projects. See item 7 below and the 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.

On October 24, 1994, Carver Federal converted from mutual to stock form and issued 2,314,275 shares of its common stock at a price of \$10 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.

On April 5, 2006, the Company acquired Community Capital Bank ("CCB"), a Brooklyn-based community bank, with approximately \$165.4 million in assets and two branches. The acquisition of CCB and its award-winning small business lending platform has expanded the Company's ability to capitalize on substantial growth in the small business market.

Equity Transactions. On October 25, 2011, the majority of 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 Series D preferred stock and common stock and exchange the U.S. Treasury 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 U.S. 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 is now reportable as stockholders equity.

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, 2012, this subsidiary had \$2.8 million in total assets and a minimal net operating loss. 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, 2012, CAC owned mortgage loans carried at approximately \$66.1 million and total assets of \$131.9 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

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 may use the proceeds to acquire Junior Subordinated Debentures issued by the Company. 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 is prohibited from paying dividends without prior OCC approval. Therefore, the Company has deferred the debenture interest payments. Prior to receiving the regulatory orders, the Company requested approval from the OCC to make a debenture interest payment and the request was denied.

Personnel

At fiscal year end 2012, the Company had 136 employees. None of the Bank'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, multi-family 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. Under the Bank's regulatory orders, the Bank is required to improve its level of adversely classified assets, limited from certain concentrations on non-owner occupied commercial real estate ("CRE") loans and is restricted from the origination of construction loans.

In recent years, Carver Federal has focused on the origination of commercial real estate loans and multi-family 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 multi-family residential mortgage loans was required given the increase of the overall level of credit risk inherent in this market segment. The greater risk associated with commercial real estate and multi-family residential loans has required 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.

During fiscal 2009, the Bank began to deemphasize the origination of new construction loans and in fiscal 2011 ceased the origination of new construction loans, allowing the outstanding balance of the construction loan portfolio to decline. As security for repayment, the Bank obtains a first lien position on the underlying collateral, and generally obtains personal guarantees. Construction loans also generally have a term of two years or less. Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns, changes in market conditions, risk of execution or other factors. The greater risk associated with construction loans has required the Bank to increase its provision 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 the Bank currently maintains. To help mitigate risk, Carver Federal had originated construction loans principally through the Community Preservation Corporation ("CPC"). These loans were targeted toward affordable housing or rental dwelling units that tend to have lower risk profiles compared to other construction loans (discussed below). Despite limiting most construction lending to CPC, the Bank experienced a significant deterioration in this portfolio, principally driven by the current deep recession. In this connection, the ability of developers to sell their units was not only hampered by the direct impacts of the recession, such as high unemployment, but also by the significant increase in governmental agency requirements to provide homeowner financing.

Carver Federal's business banking unit was formed in 2006 with the acquisition of CCB, a commercial bank, to focus on loans to businesses located within the Bank's market area. These loans are generally personally guaranteed by the business owners, and may be secured by the assets of the business. The interest rate on these loans is generally an adjustable rate based on a published index, usually the prime rate. These loans, while providing the Bank a higher rate of return, also present a higher level of risk. The greater risk associated with business loans could require the Bank to increase its provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance currently maintained.

Loan Portfolio Composition. Total loans receivable decreased by \$167.5 million, or 28.8%, to \$414.8 million at March 31, 2012 compared to \$582.3 million at March 31, 2011. Carver Federal's total loans receivable as a percentage of total assets decreased to 64.69% at March 31, 2012 compared to 82.10% at March 31, 2011. Non-residential real estate loans, which includes commercial real estate, totaled \$207.5 million, or 50.0% of total loans receivable; multi-family loans totaled \$78.9 million, or 19.0% of total loans receivable; one-to-four family mortgage loans totaled \$66.3 million, or 16.0% of total loans receivable; business loans totaled \$44.4 million, or 10.7% of total loans receivable; construction loans (net of committed but undisbursed funds), totaled \$16.5 million, or 4.0% of total loans receivable; and consumer loans (credit card loans, personal loans, and home improvement loans) totaled \$1.3 million or 0.3% of total loans receivable.

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

<i>\$ in thousands</i>	March 31, 2012		March 31, 2011		March 31, 2010		March 31, 2009		March 31, 2008	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Gross loans receivable:										
One- to four-family	\$ 66,313	16.0%	\$ 82,061	14.1%	\$ 90,150	13.4%	\$105,771	15.9%	\$127,186	19.4%
Multifamily	78,859	19.0%	123,791	21.3%	141,702	21.1%	80,321	12.1%	78,657	12.0%
Non-residential	207,505	50.0%	243,786	41.9%	259,619	38.6%	273,595	41.3%	238,508	36.3%
Construction	16,471	4.0%	78,055	13.4%	111,348	16.6%	144,318	21.8%	158,877	24.2%
Business	44,424	10.7%	53,248	9.1%	68,523	10.2%	57,522	8.7%	51,424	7.8%
Consumer and other ⁽¹⁾	1,258	0.3%	1,349	0.2%	1,403	0.2%	1,674	0.3%	1,728	0.3%
Total loans receivable	<u>\$414,830</u>	<u>100%</u>	<u>\$582,290</u>	<u>100%</u>	<u>\$672,745</u>	<u>100%</u>	<u>663,201</u>	<u>100%</u>	<u>656,380</u>	<u>100%</u>
Add:										
Premium on loans	137		120		130		546		725	
Less:										
Deferred fees and loan discounts, net	(2,109)		(2,107)		(2,864)		(1,583)		(1,229)	
Allowance for loan losses	<u>(19,821)</u>		<u>(23,147)</u>		<u>(12,000)</u>		<u>(7,049)</u>		<u>(4,878)</u>	
Total loans receivable, net	<u>\$393,037</u>		<u>\$557,156</u>		<u>\$658,011</u>		<u>\$655,115</u>		<u>\$650,998</u>	

⁽¹⁾ Includes personal loans

Non-residential Real Estate Lending. Non-residential 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. Non-residential real estate lending entails additional risks compared with one to four family residential and multi-family 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 non-residential 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 non-residential 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 1.20 on non-residential 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, 2012, non-residential real estate mortgage loans totaled \$207.5 million, or 50.0% of the total loan portfolio. This balance reflects a year-over-year decrease of \$46.1 million, or 18.7%. Beginning in the fourth fiscal quarter 2011, as a result of asset quality issues and the regulatory orders, the Bank ceased originating non-owner occupied non-residential real estate loans. The Bank, however, modified certain existing residential loans where the Bank determined that modification was in the Bank's best interest. Commencing in the fourth fiscal quarter of 2012, the Bank, on a very limited basis, began originating non-owner occupied non-residential real estate loans that the Board, or a committee of the Board, determined were in the Bank's best interest and in accordance with prudent lending standards.

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 thirty 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, 2012, loans to churches totaled \$53.1 million, or 12.86% 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 66 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 some delinquencies in this portfolio. Management believes that Carver Federal will remain a leading lender to churches in its market area, however, Carver will continue to conduct disciplined underwriting and maintain focused portfolio management.

Multi-family Real Estate Lending. Traditionally, Carver Federal originates and purchases multi-family loans. Multi-family 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 multi-family residential units. Carver Federal's multi-family real estate loan portfolio decreased \$23.1 million in fiscal 2012, or 18.9% to \$78.9 million, or 19.0%, of Carver Federal's total loan portfolio at March 31, 2012. Beginning in the fourth fiscal quarter of 2011, as a result of asset quality issues and the Bank's regulatory orders, the Bank ceased originating multi-family real estate loans. The Bank, however, did modify certain existing residential loans where the Bank determined that modification was in the Bank's best interest.

In making multi-family 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 multi-family 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 multi-family 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 multi-family 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 multi-family real estate loans, Carver Federal employs a risk-rating system for its loans. All commercial loans, including multi-family 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 \$999,999 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.

Construction Lending. The Bank has historically originated or participated in construction loans for new construction and renovation of multi-family 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 to include 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 2010, 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. Since fiscal 2011, the Bank has ceased new construction lending.

At March 31, 2012, the Bank had \$16.5 million (net of \$0.6 million of committed but undisbursed funds) in construction loans outstanding, comprising 4.0% of the Bank's gross loan portfolio. The balance at March 31, 2012 reflects a \$68.3 million, or 87.5%, decrease over fiscal 2011, consistent with the Bank's cessation of construction lending. Virtually all of the construction loans currently in Carver's loan portfolio comprise participations in loans originated by peer lenders in New York City. The preponderance of these loans, 81%, are underwritten and serviced by the Community Preservation Corporation ("CPC"), a nationally recognized non-profit corporation whose mission is to create affordable housing through new construction and renovation of existing buildings. CPC is sponsored by more than 70 commercial banks, savings institutions and insurance companies. Since its founding in 1974, CPC has been responsible for providing over \$7 billion in private and public capital to create approximately 140,000 affordable homes in low and moderate income communities, in New York City, New Jersey and Connecticut.

Consistent with other sponsoring lenders, Carver participates in a portion of an individual CPC-originated loan by purchasing up to 90% of the total loan commitment to a developer. CPC is Carver's agent in servicing the loans on a daily basis, including overseeing construction and collecting payments. However Carver's lending team independently underwrites each participation and loans are approved pursuant to Carver's Loan Policy and underwriting guidelines. Carver's lending team monitors progress in construction and other benchmarks via written reports and meetings with CPC staff, which are supplemented by site visits and direct communications with borrowers.

CPC-sponsored developments provide affordable homes for purchase or rental. Loans for rental developments, when complete, are generally sold to the New York City Pension Fund. Carver's portfolio of CPC loans consists of 7 loans in the amount of \$16.5 million, 43% are for rental developments and 57% are for sale. Most CPC homes are priced to target families at 120% of the median income in New York City, which is approximately \$78,300. This segment of the home buying market is very deep and typically resilient, given the expense of New York City living and the pent up demand of families living in public housing and other affordable rental housing to purchase their first home.

Since the recession in 2008, continued difficult economic conditions have severely tested this previously successful model. Delinquency in the CPC loan portfolio in which Carver participates has increased significantly. At March 31, 2012, the largest contributor to Carver's delinquencies was the CPC portfolio, representing 53% of total construction delinquencies and 11% of the non-performing portfolio. The delinquency rate for these loans is 34%.

The most significant factors leading to this delinquency was the federal government's decision in 2008 to remove Fannie Mae and Freddie Mac from the secondary market. As a result, loans for developments for which construction was complete could not be paid off because end loans, or mortgages for buyers, were non-existent. Second, the lengthy period in which developers managed the dearth of mortgage loans severely strained their finances, as they are typically smaller, local developers. Third, the loss of employment in the New York metropolitan area reduced confidence and demand in the home buying population. The slow recovery in the home buying/consumer mortgage business has resulted in an extended time frame for developers to finalize sales and repay their construction loans.

Our strategy to manage this portfolio has been threefold. First, we ceased additional construction lending in fiscal 2011. During fiscal 2012, the construction loan portfolio has been reduced by \$68.3 million or 87.5%, through pay-offs and other resolutions. Second, we worked with CPC to develop an end loan product to provide mortgage financing for purchasers, if secondary market conditions do not rebound sufficiently. Third, we are aggressive participants, along with CPC, in the servicing of each loan.

To help ensure continued collateral protection and asset quality for the term of construction loans, Carver Federal employs a risk-rating system for its loans. All construction loans are risk-rated internally at the time of origination. Management continually

monitors all construction 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 evaluate 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 construction loan relationships. On a quarterly basis, i) all new/renewed loans greater than \$1,000,000, 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 \$1,000,000 and a sampling of loans \$100,000 to \$999,999 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.

One-to-four Family Residential Lending. Historically, Carver Federal emphasized the origination and purchase of first mortgage loans secured by one-to-four family properties that serve as the primary residence of the owner. To a much lesser degree, the Bank has made loans to investors that are secured by non-owner occupied one-to-four family properties. In the past the Bank has also purchased one-to-four family loans; however, no such loans were purchased in fiscal 2012 or fiscal 2011. In October 2008, the Bank entered into an arrangement with a third party to originate and underwrite one-to-four family loans for the Bank using Fannie Mae, Freddie Mac or FHA underwriting guidelines.

Carver Federal offers both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and the loan amount cannot exceed 10% of the 1-4 loan portfolio. Approximately 50.33% of the one-to-four family residential mortgage loans maturing in greater than one year at March 31, 2012 were adjustable rate and approximately 49.67% were fixed-rate. One-to four-family residential real estate loans decreased \$15.7 million to \$66.3 million, or 16.0%, of the gross loan portfolio at March 31, 2012 compared to March 31, 2011. During fiscal 2009 the Bank closed its residential one-to-four family lending department and elected to originate one-to-four residential loans through a third party private label origination operation. Loan origination volume is very low and most of the loans are sold servicing released. The Bank does not make the credit decision and therefore does not include these loans in its HMDA reporting.

The Bank's lending policies generally limit the maximum loan-to-value ("LTV") ratio on one-to-four family residential mortgage loans secured by owner-occupied properties to 80% with private mortgage insurance required on loans with LTV ratios in excess of that. Under certain special loan programs, Carver Federal may originate and sell loans secured by single-family homes purchased by first time home buyers where the LTV ratio may be up to 96.5%.

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 several servicing firms to sub-service mortgage loans, whether held in portfolio or sold with the servicing retained. At March 31, 2012, the Bank, through its sub-servicers, serviced \$39.2 million in loans for FNMA and \$5.2 million for other third parties.

Carver Federal offers one-year, three-year, five/one-year and five/three-year adjustable-rate one-to-four family residential mortgage loans. These loans are generally retained in Carver Federal's portfolio although they may be sold in the secondary market. They are indexed to the weekly average rate on one-year, three-year and five-year U.S. Treasury or Federal Home Loan Bank ("FHLB") securities, respectively, adjusted to a constant maturity (usually one year), plus a margin. The rates at which interest accrues on these loans are adjustable every one, three or five years, generally with limitations on adjustments of two percentage points per adjustment period and six percentage points over the life of a one-year adjustable-rate mortgage and four percentage points over the life of three-year and five-year adjustable-rate mortgages.

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 re-pricing 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.

In the past, the Bank 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, 2012, the Bank had \$5.7 million in subprime loans, or 1.38%, of its total loan portfolio of which \$3.7 million are non-performing loans.

Business Loans. Carver Federal's small business lending portfolio decreased by \$15.3 million to \$44.4 million, or 22.3%, of the Bank's gross loan portfolio in fiscal 2012. 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. Included in commercial business loans are loans made to owners of New York City taxi medallions. These loans, which totaled \$2.5 million at March 31, 2012, are secured through first liens on the taxi medallions. Carver Federal originates taxi medallion loans in an amount up to 80% of the value of the taxi medallion.

Consumer and other Loans. At March 31, 2012, the Bank had \$1.3 million in consumer and other loans, or 0.3%, of the Bank's gross loan portfolio. At March 31, 2012, \$1.2 million, or 88.8%, of the Bank's consumer loans were unsecured loans, consisting of consumer loans, other than loans secured by savings deposits, and \$0.1 million or 11.2%, were 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 multi-family 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 Association (“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 Order, 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, 2012, the maximum loans-to-one-borrower under this test is \$13.1 million and the Bank had no relationships that exceeded this limit.

Loan Sales. Originations of one-to-four family real estate loans are generally made on properties located within the New York City metropolitan area, although Carver Federal occasionally funds loans secured by property in other areas. All such loans, however, satisfy the Bank's underwriting criteria regardless of location. The Bank continues to offer one-to-four family fixed-rate mortgage loans in response to consumer demand but requires that such loans satisfy applicable secondary market guidelines of FNMA, SONYMA or other third-party purchasers to provide the opportunity for subsequent sale in the secondary market as desired to manage interest rate risk exposure.

Loan Originations and Purchases. Loan originations, including loans originated for sale, were \$15.3 million in fiscal 2012 compared to \$28.6 million in fiscal 2011. In prior years, the Bank increased its loan production of non-residential commercial real estate and multi-family lending, including those in construction, to take advantage of higher yields and better interest rate risk characteristics. However, due to the downturn in the real estate market and the economy in general, the Bank has curtailed non-owner occupied commercial real estate and construction lending given the additional risks associated with these products. The Bank did not purchase any loans during fiscal 2012 and fiscal 2011 compared to \$10.8 million for fiscal 2010.

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:

\$ in thousands	2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent
Loans Originated:						
One-to-four family	\$ 3,256	21.29%	\$ 3,129	10.96%	\$ 3,477	2.92%
Multi-family	642	4.20%	700	2.45%	18,678	15.67%
Non-residential	415	2.71%	3,159	11.06%	42,868	35.97%
Construction	—	—%	4,902	17.16%	13,752	11.54%
Business	10,936	71.52%	16,318	57.13%	29,368	24.64%
Consumer and others ⁽¹⁾	41	0.27%	353	1.24%	277	0.23%
Total loans originated	15,290	100.00%	28,561	100.00%	108,420	90.97%
Loans purchased ⁽²⁾	—	—%	—	—%	10,760	9.03%
Total loans originated and purchased	15,290	100.00%	28,561	100.00%	119,180	100.00%
Loans sold ⁽³⁾	(35,307)		(3,335)		(3,370)	
Net (reductions) additions to loan portfolio	\$ (20,017)		\$ 25,226		\$ 115,810	

⁽¹⁾ Comprised of personal loans.

⁽²⁾ Comprised of one-to-four family residential, non-residential and multifamily mortgage loans and business loans.

⁽³⁾ Comprised of primarily of multifamily loans in the current period and one-to-four family mortgage loans in the prior periods.

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, 2012 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. Construction loans generally have terms from 12 to 24 months and when coupled with the significant decline in originations over the past two years, the construction loan portfolio has a maturity of less than one year. 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:

<i>\$ in thousands</i>	Loan Maturities			
	<1 Yr.	1-5 Yrs.	5-20+ Yrs.	Total
Gross loans receivable:				
One-to-four family	\$ 169	\$ 63,968	\$ 2,176	\$ 66,313
Multi-family	7,864	36,200	34,795	78,859
Commercial	14,953	77,639	114,912	207,504
Construction	16,471	—	—	16,471
Business	12,103	6,014	26,308	44,425
Consumer	867	71	320	1,258
Total	<u>\$ 52,427</u>	<u>\$ 183,892</u>	<u>\$ 178,511</u>	<u>\$ 414,830</u>

The following table sets forth as of March 31, 2012, amounts in each loan category that are contractually due after March 31, 2013 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:

<i>\$ in thousands</i>	Due After March 31, 2013		
	Fixed	Adjustable	Total
Gross loans receivable:			
One-to-four family	\$ 32,853	\$ 33,291	\$ 66,144
Multi-family	35,704	35,291	70,995
Non-residential	48,832	143,720	192,552
Construction	—	—	—
Business	19,867	12,454	32,321
Consumer	—	391	391
Total	<u>\$ 137,256</u>	<u>\$ 225,147</u>	<u>\$ 362,403</u>

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 multi-family real estate loans, the borrower's ability to pay typically is dependent on rental income, which can be impacted by vacancies and general market conditions. For one-to-four family loans, a borrower's 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 non-accrual loans 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 takes 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 troubled debt restructuring are placed on non-accrual 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, 2012, loans classified as a troubled debt restructuring totaled \$21.0 million.

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

<i>\$ in thousands</i>	2012	2011	2010	2009	2008
⁽¹⁾ Loans accounted for on a non-accrual basis:					
Gross loans receivable:					
One-to-four family	\$ 6,988	\$ 15,993	\$ 7,682	\$ 4,396	\$ 567
Multi-family	2,923	6,786	10,334	3,569	—
Non-residential	24,467	10,078	6,315	11,375	522
Construction	11,325	37,218	17,413	3,286	—
Business	8,862	7,289	5,799	3,079	1,708
Consumer	23	42	28	22	57
Total non-performing loans	54,588	77,406	47,571	25,727	2,854
⁽²⁾ Other non-performing assets:					
Real estate owned	2,183	564	66	465	1,163
Loans held for sale	29,626	9,205	—	21,105	23,767
Total other non-performing assets	31,809	9,769	66	21,570	24,930
⁽³⁾ Total non-performing assets:	\$ 86,397	\$ 87,175	\$ 47,637	\$ 47,297	\$ 27,784
⁽⁴⁾ Accruing loans contractually past due > 90 days:					
	\$ —	\$ —	\$ 1,411	\$ 894	\$ —
Non-performing loans to total loans	13.22%	13.34%	7.10%	4.01%	0.43%
Non-performing assets to total assets	13.47%	12.29%	5.91%	5.98%	3.49%

⁽¹⁾ Non-accrual status denotes any loan where the delinquency exceeds 90 days past due and in the opinion of management, for which the collection of additional interest and/or principal is doubtful. Payments received on a non-accrual 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 non-accrual and are included in the non-accrual category in the table above. 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.
- (4) Loans 90 days or more past due and still accruing, which were not included in the non-performing category.

At March 31, 2012, total non-performing assets decreased by \$0.8 million to \$86.4 million, compared to \$87.2 million at March 31, 2011. Non-accrual loans consist of thirty-two one-to-four family loans, 5 multi-family loans, seventeen non-residential real estate loans, 5 construction loans, eleven consumer and twenty-eight small business and SBA loans. The increase in delinquent loans from the prior year is primarily the result of continued unfavorable economic conditions and resultant impact on borrower's ability to meet the terms of their loans. Management believes that there will likely be losses on certain delinquent loans, but that the amount of losses will be reduced by the values of the properties securing these delinquent loans and the Bank's loan loss reserves. Other non performing assets of \$31.8 million include a portfolio of loans held-for sale and real estate owned assets consisting of two properties foreclosed upon.

Although we believe that substantially all risk elements at March 31, 2012 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.

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 Accounting Standards Codification ("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 subtopic 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 multi-family 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 the lower of cost or 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:

<i>\$ in thousands</i>	2012	2011	2010	2009	2008
Balance at beginning of year	\$ 23,147	\$ 12,000	\$ 7,049	\$ 4,878	\$ 5,409
Less Charge-offs:					
One-to-four family	3,730	827	580	—	22
Non-residential	17,322	12,226	1,648	—	—
Business	875	2,007	646	501	709
Consumer and other	8	959	84	83	174
Total Charge-offs	\$ 21,935	\$ 16,019	\$ 2,958	\$ 584	\$ 905
Add Recoveries:					
One-to-four family	469	6	12	—	—
Non-residential	1,685	2	—	—	—
Business	113	13	6	10	110
Consumer and other	—	31	46	43	42
Total Recoveries	\$ 2,267	\$ 52	\$ 64	\$ 53	\$ 152
Net loans charged-off	19,668	15,967	2,894	531	753
Provision for losses	16,342	27,114	7,845	2,702	222
Balance at end of year	\$ 19,821	\$ 23,147	\$ 12,000	\$ 7,049	\$ 4,878
Ratios:					
Net charge-offs to average loans outstanding	3.74%	2.54%	0.43%	0.08%	0.17%
Allowance to total loans	4.80%	3.99%	1.79%	1.1%	0.74%
Allowance to non-performing loans	36.31%	29.9%	25.23%	27.4%	170.89%

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

<i>\$ in thousands</i>	2012		2011		2010		2009		2008	
	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
Allowance for loan losses:										
One-to-four family	\$ 4,305	21.7%	\$ 2,923	12.6%	\$ 1,036	8.6%	\$ 970	13.8%	\$ 324	6.6%
Multi-family	5,409	27.3%	6,223	26.9%	1,566	13.1%	428	6.1%	315	6.5%
Non-residential	6,709	33.8%	3,999	17.3%	2,613	21.8%	2,417	34.3%	1,215	24.9%
Construction	1,532	7.7%	6,944	30%	3,831	31.9%	896	12.7%	1,448	29.7%
Business	1,786	9.0%	2,965	12.8%	2,069	17.2%	2,268	32.2%	1,124	23%
Consumer and other	80	0.4%	93	0.4%	60	0.5%	70	1%	94	1.9%
Unallocated	—	0.0%	—	0%	826	6.9%	—	0%	358	7.3%
Total Allowance	\$ 19,821	100%	\$ 23,147	100%	\$ 12,001	100%	\$ 7,049	100%	\$ 4,878	100%

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. *ASC Subtopic 320-942* requires that securities be 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, 2012, the Bank had no securities classified as trading. At March 31, 2012, \$85.1 million, or 88.5% of the Bank's mortgage-backed and other investment securities, was classified as available-for-sale. The remaining \$11.1 million, or 11.5%, was 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."

At March 31, 2012, mortgage-backed securities constituted 8.9% of total assets, as compared to 7.6% of total assets at March 31, 2011. 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 pro rata 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, 2012, constituted \$4.1 million, or 16.8%, 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 4 of Notes to Consolidated Financial Statements, "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 4 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 in stockholders' equity. 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. The Bank quarterly 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. In April 2009, the FASB issued guidance that changes the amount of an other-than-temporary impairment that is recognized in earnings when there are 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. In those situations, 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 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. As of fiscal year end 2012 and 2011, the Bank does not have any securities that may be 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 repurchase agreements and trust preferred debt securities.

Deposits. Carver Federal attracts deposits from consumers, businesses, non-profit organizations and public entities through its nine 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.

The Bank's branches on 116th Street and 145th Street in Harlem and its Jamaica branches operate in New York State designated Banking Development Districts ("BDD"), which allows Carver Federal to participate in BDD-related activities, including acquiring New York City and New York State deposits. BDD deposits are used by various municipal agencies to encourage banking operations in low- to moderate-income areas. During fiscal year 2012, \$60 million of BDD funds were returned to New York City and New York State.

As of March 31, 2012 the Bank also has \$56.8 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 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 customer's 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 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.

In February 2011, regulatory orders issued to Carver Federal restricted Carver's ability to add new CDARS deposit accounts and renew existing CDARS deposit accounts. Carver Federal applied for a Brokered Deposit Waiver through the Federal Deposit Insurance Corporation ("FDIC") to allow for the renewal of the existing CDARS deposit base. During the period that Carver was waiting for the FDIC brokered deposit waiver, maturing deposits were placed in a one way CDARS that allowed the Carver customer to maintain the product, but not longer counted as a deposit liability for Carver, because it was no longer reciprocal. This allowed Carver to meet the clients needs, while remaining compliant with the regulatory orders. At March 31, 2011, the Bank had placed \$2.6 million of customer funds into the program. In April 2011 the FDIC approved Carver Federal's Brokered Deposit Waiver, allowing for the renewal of the Bank's existing CDARS deposit base. The Bank has submitted quarterly waivers throughout fiscal year 2012 and received both local and national approval on all requests. The Bank expects this approval to continue on all future waiver submissions.

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 8 of Notes to Consolidated Financial Statements, "Deposits."

Borrowed Money. 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 re-pricing cycle of the mortgage loans on the balance sheet. At March 31, 2012, Carver had \$25.0 million in FHLB-NY advances outstanding. During fiscal year 2011 the FHLB-NY increased the collateral requirements on Carver's existing advances. FHLB-NY could institute additional collateral requirements or restrict Carver's ability to access additional advances or renew maturing advances. During fiscal year 2012, the Bank early terminated \$30 million in Repo borrowings as well as prepaying a \$10 million fixed rate FHLB advance; these prepayments resulted in charges of \$722 thousand.

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 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 (reset quarterly) equal to 3.05% over 3-month LIBOR, with a rate at March 31, 2012 of 3.36%. 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.

On September 30, 2009, the Bank raised \$5.0 million in a private placement of subordinated debt maturing December 30, 2018. The maximum contractual interest rate for the debt is 12.00% per annum; however, for the first seven years, and so long as Carver maintains its certification as a Community Development Entity ("CDE") and remains in compliance with all of the NMTC requirements, the interest rate shall be reduced by 500 basis points to 7.00% per annum. During the 2nd 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.

These subordinated debt securities amounted to \$18.4 million at March 31, 2012 and are included in other borrowed money on the consolidated statement of financial condition. For additional information regarding the Company's advances from the FHLB-NY and other borrowed money refer to Note 9 of Notes to Consolidated Financial Statements, "Borrowed Money."

On October 30, 2009, the Bank raised \$14.1 million in a private placement of Senior Notes bearing a coupon of 1.69% per annum, which matured on October 31, 2011. This debt is guaranteed under the Federal Deposit Insurance Corporation's (the "FDIC") Temporary Liquidity Guarantee Program (TLGP). For this guarantee, the Bank was assessed a fee by the FDIC in the amount of 125 basis points. These proceeds were used to increase the Bank's liquidity position and for general corporate purposes. On October 31, 2011, the Bank repaid its borrowing under the TLGP program.

On June 29, 2011 the Company raised \$55 million of capital. The \$55 million resulted in a \$52 million increase in liquidity net of the effect of various expenses associated with the capital raise. In addition, the Company downstreamed \$37 million to the Bank. In December 2011, another \$7 million was downstreamed to the Bank. The remainder of the net capital raised is retained by the Company for future strategic purposes. 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.

REGULATION AND SUPERVISION

Cease and Desist Orders

On February 7, 2011, the Company and the Bank consented to the OTS issuing Orders to Cease and Desist ("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 Company Order requires, among other things, the Company to notify and receive the OTS' 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 Bank Order requires, among other things, the Bank (i) attain by April 30, 2011, and maintain, a Tier 1 Core Capital Ratio equal to or greater than nine percent (9%) and a Total Risk-Based Capital Ratio equal to or greater than thirteen percent (13%); (ii) revise and adhere to a written plan to identify, monitor and control risk associated with concentrations of assets; (iii) adhere to a detailed written plan with specific strategies, targets and timeframes to reduce the Bank's level of problem assets, which shall include all criticized and classified assets; and (iv) ensure that the Bank's financial reports and statements are timely and accurately prepared and filed. The Bank Order also provides that, unless the Bank first receives prior OTS written non-objection, the Bank may not (i) originate or purchase, refinance, extend or otherwise modify any commercial real estate loan as defined in the Order ("CRE Loan"), unless the refinance, modification or extension meets certain criteria, including improving the credit quality and collectability of the loan; (ii) increase its asset size in any quarter greater than an amount equal to the net interest credited on deposit liabilities during the prior quarter; (iii) declare or pay dividends or make any capital distributions; (iv) make certain changes to its directors or senior executive officers; (v) enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any of its directors or senior executive officers; (vi) make any golden parachute or prohibited indemnification payments; (vii) enter into certain transactions with affiliates; and (xiii) enter into any arrangement or contract with a third party service provider that is significant or outside the normal course of business. Finally, without prior Federal Deposit Insurance Corporation Approval, the Bank may not roll over or renew any brokered deposit or accept any new brokered deposits.

The foregoing description of the Orders is qualified in its entirety by reference to the Orders issued to the Company and the Bank. For additional information regarding the Orders please see the Form 8-K filed with the SEC on February 10, 2011.

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. Commencing on June 30, 2011 the Bank has maintained its Tier 1 Core Capital Ratio and Total Risk-Based Capital Ratio above the limits contained in the Bank Order. However, 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.

The Orders continue to be in effect and the Company and Bank have taken actions toward compliance. However, no assurances can be given that the Bank and the Company will be able to comply with all provisions of the Order.s Failure to comply could result in further regulatory actions and the possibly civil money penalties to be assessed by the regulators.

As stated above, under the Orders, the Bank and Company are prohibited from paying any dividends without prior regulatory approval. On October 18, 2011, the Company received approval from the Federal Reserve Bank to pay all outstanding dividend payments on the Company's fixed-rate cumulative perpetual preferred stock issued under the Capital Purchase Program of the United States Department of the Treasury ("U.S. Treasury"). These payments were made in connection with the U.S. 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. It had been regulated by the OTS until the OTS merged with the OCC on July 21, 2011 (see below). The Bank's deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation ("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 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 Office of Thrift Supervision was merged into the OCC. Responsibility for the supervision and regulation of federal savings banks was transferred to the Office of the Comptroller of the Currency, which is the agency that is currently primarily responsible for the regulation and supervision of national banks. The Office of the Comptroller of the Currency assumed responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings banks. The transfer of regulatory functions took place one year from the Dodd-Frank Act enactment date of July 21, 2010. At the same time, responsibility for the regulation and supervision of savings and loan holding companies was transferred to the Federal Reserve Board, which currently supervises bank holding companies. Additionally, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau will assume 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 Office of Thrift Supervision and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, requires changes in the way that institutions are 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, directs the Federal Reserve Board to regulate pricing of certain debit card interchange fees, reduces the federal preemption afforded to federal savings associations and contains a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act contain delayed effective dates and/or require 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, generally, 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 6% 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, requires 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 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 includes a capital directive requiring the Bank to achieve and maintain regulatory capital levels of a Tier I Core Capital Ratio of 9% and a Total Risk-Based Capital Ratio of 13% by April 30, 2011. At March 31, 2011, Carver Federal did not achieve these capital requirements with a tangible capital ratio of 5.38%, total risk-based capital ratio of 9.6% and a leverage capital ratio of 7.36%. The Company did not raise the additional capital by April 30, 2011 and thus filed a contingency plan with the OCC. If the contingency plan is acted upon it may result in the sale or unwinding of the Company. On June 29, 2011 the Company raised \$55 million of equity. The increase in the Company and Bank's capital position results in the Company and the Bank meeting the capital directives within the Orders. At March 31, 2012, Carver Federal exceeded the capital directives required by the Cease and Desist Order, with a Tier I capital ratio of 9.83% total risk-based capital ratio of 16.94% and a leverage capital ratio of 14.50%. The OCC has determined that Carver Federal is adequately capitalized. The Company is in the process of revising its capital plan based upon guidance OCC Bulletin 2012-16 issued June 7, 2012, which must be presented to and accepted by the OCC.

Limitation on Capital Distributions. The OCC imposes 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 OCC at least 30 days before making a capital distribution. However, the Bank must file an application for prior approval 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. In addition, OCC regulations authorize, but do not require, 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 is 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 is 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 percent, compared to the 5 percent rate offered under the CPP. CDFIs may apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years, compared to five years under CPP. On August 27, 2010, Carver completed the exchange of the \$18.98 million of CPP funds for an equivalent amount of CDCI funds. The previously described, the Cease and Desist Order prohibits the Company from paying dividends without prior OCC approval, and as such, has suspended the regularly quarterly cash dividend payment on the Company's fixed-rate cumulative perpetual preferred stock issued under the CDCI program. 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 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 Multi-family 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, 2012, the Bank's limit on loans to one borrower based on its unimpaired capital and surplus was \$7.5 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 non compliance potentially subject to agency enforcement action for violation of law. At March 31, 2012, the Bank maintained approximately 70.0% 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 2009.

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” and insiders is limited by OCC regulations and by Sections 23A, 23B, 22(g) and 22(h) 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.

In January 2011, certain directors and seniors officers of the Company loaned a total of \$113,227 to the Company to allow the Company to make the interest payment on the Company's trust preferred securities due in January 2011. The loan is secured by a pledge of shares of Treasury stock. The interest rate on the loan is prime plus 2%. The loan was repaid upon completion of the Company's capital raise.

The Bank's authority to extend credit to its directors, executive officers, and 10% shareholders, 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 on the amount of credit extended to such persons, 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, 2012, there were no loans to officers or directors.

The Federal Reserve Board has confirmed its previous interpretations of Sections 23A and 23B of the FRA with Regulation W. The OCC has also conformed its regulations to agree with Regulation W. Regulation W made various changes to existing law regarding Sections 23A and 23B, including expanding the definition of what constitutes an "affiliate" subject to Sections 23A and 23B and exempting certain subsidiaries of state-chartered banks from the restrictions of Sections 23A and 23B.

The OCC regulations provide for additional restrictions imposed on savings associations under Section 11 of HOLA, including provisions prohibiting a savings association from making a loan to an affiliate that is engaged in non-bank holding company activities and provisions prohibiting a savings association from purchasing or investing in securities issued by an affiliate that is not a subsidiary. The OCC regulations also include certain specific exemptions from these prohibitions. The Federal Reserve Board and the OCC expect each depository institution that is subject to Sections 23A and 23B to implement policies and procedures to ensure compliance with Regulation W and the OCC regulation. These regulations have had no material adverse effect on the Bank's business.

Section 402 of the Sarbanes-Oxley Act prohibits the extension of personal loans to directors and executive officers of issuers (as defined in the Sarbanes-Oxley Act). The prohibition, however, does not apply to mortgages advanced by an insured depository institution, such as the Bank, that is subject to the insider lending restrictions of Section 22(h) of the FRA.

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. Effective July 1, 2004, the OCC adopted a final rule replacing examination fees for savings and loan holding companies with semi-annual assessments. For fiscal 2012, Carver paid \$0.4 million 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 new assessment system, the FDIC assigns 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 range from two to four basis points for Risk Category I institutions and are 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. For institutions within Risk Category I, assessment rates generally depend upon a combination of CAMELS (capital adequacy, asset quality, management, earnings, liquidity, sensitivity to market risk) component ratings and financial ratios, or for large institutions with long-term debt issuer ratings, assessment rates depend on a combination of long-term debt issuer ratings and CAMELS component ratings. The FDIC has the flexibility to adjust rates, without further notice-and-comment rulemaking, provided that no such adjustment can be greater than three basis points from one quarter to the next, that adjustments cannot result in rates more than three basis points above or below the base rates, and that rates cannot be negative.

The Dodd-Frank Act requires the Federal Deposit Insurance Corporation to revise its procedures to base its assessments upon total assets less tangible equity instead of deposits. The Federal Deposit Insurance Corporation finalized a rule that implemented that change April 1, 2011. Among other things, the final rule changes the assessment range. As of March 31, 2012, the Bank had an assessment rate of twenty-seven basis points and the Bank's expense for FDIC insurance payments totaled \$1.9 million in fiscal 2012. 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.

On November 12, 2009, the FDIC issued a final rule that required insured depository institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, together with their quarterly risk-based assessment for the third quarter 2009. The Bank prepaid \$3.7 million, of which approximately \$3.4 million was recorded as a prepaid asset as of December 31, 2009.

On October 3, 2008, in response to the financial crises affecting the banking system and financial markets, the FDIC announced a temporary increase in deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. The Dodd-Frank Act permanently raised the standard maximum deposit insurance to \$250,000. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

On November 21, 2008, the FDIC adopted the Temporary Liquidity Guarantee Program, or TLGP, pursuant to its authority to prevent "systemic risk" in the U.S banking system. The TLGP was announced by the FDIC on October 14, 2008 as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLGP the FDIC will (1) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 under the Debt Guarantee Program and (2) fully insure non-interest bearing transaction deposit accounts held at participating FDIC-insured institutions, through December 31, 2009 under the Transaction Account Guarantee Program ("TAG").

Eligible institutions were covered under the TLGP at no cost for the first 30 days. Institutions that did not want to continue to participate in one or both parts of the TLGP were required to notify the FDIC of their election to opt out on or before December 5, 2008. Institutions that did not opt out are subject to a fee of up to 100 basis points per annum based on the amount of senior unsecured debt issued under the Debt Guarantee Program. Under the Transaction Account Guarantee Program, a 10 basis point surcharge was added to the institution's current insurance assessment, quarterly, for balances in non-interest bearing transaction accounts that exceed the existing deposit insurance limit of \$250,000. The TLGP was due to expire in June of 2009; however, on February 10, 2009 the FDIC announced its intention to extend the TLGP through October 2009 for an additional premium.

On October 30, 2009, the Bank raised \$14.1 million in a private placement of Senior Notes bearing a coupon of 1.69% per annum, maturing on October 31, 2011. This debt is guaranteed under the TLGP. For this guarantee, the Bank is assessed a fee by the FDIC in the amount of 125 basis points. These proceeds were used to increase the Bank's liquidity position and for general corporate purposes.

On April 13, 2010, the FDIC provided under an Interim Final Rule a one-time opportunity to opt out of the TAG program effective July 1, 2010. Carver Federal Savings Bank exercised this opportunity and opted out. Carver Federal will continue to participate in the debt guarantee component of the TLGP.

For further discussion of the FDIC's restoration plan and proposal, see Item 1A, "Risk Factors."

Anti-Money Laundering and Customer Identification

The Bank is subject to OCC 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 OCC regulations impose the following requirements with respect to

financial institutions:

- Performance of a risk assessment and establishment of a Board approved policy
- Designation of a qualified BSA officer
- Establishment of an effective training program
- Establishment of anti-money laundering programs.
- Establishment of 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.
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering.
- Prohibition on 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 FRA and Bank Merger Act 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 an amount equal to the greater of (i) 1% of the aggregate principal amount of its unpaid residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, and (ii) 5% (or such greater fraction as established by the FHLB-NY) of its outstanding advances from the FHLB-NY. The Bank was in compliance with this requirement with an investment in the capital stock of the FHLB-NY at March 31, 2012 of \$2.2 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 \$0.1 million, \$0.2 million and \$0.3 million for fiscal years 2012, 2011 and 2010, respectively. The dividend rate paid on FHLB-NY stock at March 31, 2012 was 4.50%.

Under the Gramm-Leach-Bliley Act, as amended ("GLB"), which, among other things, repeals historical restrictions and eliminates 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 replaces the existing redeemable stock structure of the FHLB system with a capital structure that requires 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 will change the foregoing minimum stock ownership requirements for FHLB stock. Under the new capital plan, each member of the FHLB will have 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

Federal Reserve Board regulations require federally chartered savings associations to maintain non-interest-earning cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between \$10.7 million and \$58.8 million (subject to adjustment by the Federal Reserve

Board) plus a reserve of 10% (subject to adjustment by the Federal Reserve Board between 8% and 14%) against that portion of total transaction accounts in excess of \$58.8 million. The first \$58.8 million of otherwise reservable balances (subject to adjustment by the Federal Reserve Board) 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 Federal Reserve Board, 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 Federal Reserve Board regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Pursuant to the EESA, the Federal Reserve Board announced on October 6, 2008, that the Federal Reserve Banks will begin to pay interest on depository institutions' required and excess reserve balances. Paying interest on required reserve balances should essentially eliminate the opportunity cost of holding required reserves, promoting efficiency in the banking sector. The interest rate paid on required reserve balances is currently the average target federal funds rate over the reserve maintenance period. The rate on excess balances will be set equal to the lowest target federal funds rate in effect during the reserve maintenance period. The payment of interest on excess reserves will permit the Federal Reserve Board to expand its balance sheet as necessary to provide the liquidity necessary to support financial stability.

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 Federal Reserve Board. As such, the Company is registered with and is subject to Federal Reserve Board examination and supervision, as well as certain reporting requirements. In addition, the Federal Reserve Board has enforcement authority over the Company and its subsidiaries. Among other things, this authority permits the OCC 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. The Dodd-Frank Act transfers the responsibility for that regulation and supervision of savings and loan holding companies to the Federal Reserve Board effective July 21, 2011.

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 OCC 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 bank holding companies, as defined under GLB. GLB also prohibits non-financial 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 OCC 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 OCC approval; or

- (3) control of any depository institution not insured by the FDIC (except through a merger with and into the holding company's savings institution subsidiary that is approved by the OCC).

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.

The HOLA prohibits a savings and loan holding company (directly or indirectly, or through one or more subsidiaries) from acquiring another savings association or holding company thereof without prior written approval of the OCC; acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings association, a non-subsidiary holding company, or a non-subsidiary company engaged in activities other than those permitted by the HOLA; or acquiring or retaining control of a depository institution that is not federally insured. In evaluating applications by holding companies to acquire savings associations, the OCC must consider 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 funds, the convenience and needs of the community and competitive factors.

Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board 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 institutions themselves. Instruments such as cumulative preferred stock and trust preferred securities will no longer be includable as Tier 1 capital, as is currently the case with bank holding companies. Instruments issued by May 19, 2010 will be grandfathered for companies with consolidated assets of \$15 billion or less. There is a five year transition period (from the July 21, 2010 effective date of the Dodd-Frank Act) before the capital requirements will apply to savings and loan holding companies.

The Dodd-Frank Act also extends the “source of strength” doctrine to savings and loan holding companies. The regulatory agencies must issue regulations requiring that all bank and savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

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 10 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 2012. In addition, New York State imposes a tax surcharge of 17.0% of the New York State Franchise Tax allocable to business activities carried on in the Metropolitan Commuter Transportation District. For fiscal 2012, the New York State franchise tax rate computed on taxable assets was .01% (including the Metropolitan Commuter Transportation District Surcharge).

New York State has enacted legislation that enabled the Bank to avoid the recapture of the New York State tax bad debt reserves that otherwise would have occurred as a result of the changes in federal law and to continue to utilize either the federal method or a method based on a percentage of its taxable income for computing additions to its bad debt reserve.

New York City. The Bank and the Company file on a combined bases and are also subject to a similarly calculated New York City banking corporation tax on assets allocated to New York City. For fiscal 2012, the New York City banking corporation tax rate computed on taxable assets is .01%.

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.

EXECUTIVE OFFICERS OF THE COMPANY

The name, position, term of office as officer and period during which he or she has served as an officer is provided below for each executive officer of the Company as of March 31, 2012. Each of the persons listed below is an executive officer of the Holding Company and the Bank, holding the same office in each.

Deborah C. Wright, age 54, is Chairman, President and Chief Executive Officer of Carver and Carver Federal. The Board of Directors elected her to the post of Chairman in February 2005. Ms. Wright has held the titles President & CEO since

June 1, 1999. Prior to joining Carver in June 1999, Ms. Wright was President and Chief Executive Officer of the Upper Manhattan Empowerment Zone Development Corporation, a position she had held from May 1996 through May 1999. She previously served as Commissioner of the Department of Housing Preservation and Development under Mayor Rudolph W. Giuliani from January 1994 through March 1996. Prior to that appointment, Mayor David N. Dinkins appointed Ms. Wright to the New York City Housing Authority Board, which manages New York City's 189,000 public housing units. Ms. Wright serves on the boards of Time Warner Inc., The Partnership for New York City and Sesame Workshop. She is a member of the Board of Managers of the Memorial Sloan-Kettering Cancer Center. Ms. Wright served on the Board of Overseers of Harvard University, The Children's Defense Fund and Kraft Foods Inc. Ms. Wright earned A.B., J.D. and M.B.A. degrees from Harvard University.

Mark A. Ricca, age 55, is Executive Vice President, Chief Financial and Administrative Officer. Between November 2008 and June 2011 Mr. Ricca was Carver's Executive Vice President, Chief Risk Officer and General Counsel. Mr. Ricca joined Carver in November 2008. Prior to joining Carver, Mr. Ricca held several positions at New York Community Bancorp, Inc. and its principle subsidiary, New York Community Bank, beginning in 2000 and finishing in 2007 as its Executive Vice President, General Counsel and Assistant to the Chief Operating Officer. Prior to this, Mr. Ricca held various positions at Haven Bancorp, Inc., and its principal subsidiary, CFS Bank, as Senior Vice President, Residential and Consumer Lending, Corporate Secretary, General Counsel and Chief Compliance Officer and was a partner in the law firm of Ricca & Donnelly. Mr. Ricca also worked for General Electric Company, graduating from the Financial Management Program with honors and holding various positions in financial management, accounting and corporate audit. Mr. Ricca holds a B.A. degree in economics from the University of Notre Dame, a J.D. cum laude, Law Review and Jurisprudence Award from St. Johns University, School of Law, and an LL.M. from New York University, School of Law. Mr. Ricca also graduated with honors from the National School of Banking.

David Toner, age 50, is Senior Vice President and Controller of Carver. Prior to joining Carver in December 2009, Mr. Toner spent more than 20 years with Citigroup (Citi) in various Financial Control positions in the United States and Europe, including serving as Chief Financial Officer of Citi's Community Development business from 2004 through 2007. Prior to joining Citigroup in 1987, Mr. Toner held various audit positions with Deloitte & Touche (formerly Deloitte, Haskins & Sells). Mr. Toner is a certified public accountant. He received his M.B.A. in Finance, with a concentration in International Business, from the Stern School of Business at New York University and his B.S. in Accounting, summa cum laude, from the Haub School of Business at Saint Joseph's University. He is a member of the Board of Visitors (advisory board) for the Haub School of Business and a member of the New York Alumni Council for Saint Joseph's University.

Blondel A. Pinnock, age 44, is Senior Vice President, Carver Federal Savings Bank and President of Carver Community Development Corporation. Ms. Pinnock joined Carver in April 2008. Prior to joining Carver, Ms. Pinnock was Senior Vice President of Bank of America where she was a community development lender and business development officer. Ms. Pinnock has over a ten year background in financing the development of residential and commercial real estate projects located within low and moderate income neighborhoods throughout New York City and outlying areas. Prior to her tenure at Bank of America, Ms. Pinnock worked as counsel and deputy director for the New York City's Housing, Preservation and Development Department's Tax Incentives Unit, where she assisted in the implementation of the City's real estate tax programs for low, moderate and market rate projects. She earned a B. A. from Columbia College and a J. D. from Hofstra University School of Law.

Lucia Cameron, age 50, is Senior Vice President and Chief Human Resources Officer. Ms. Cameron joined Carver in June 2011 from Credit Suisse where she served as a Vice President/Human Resources Business Partner. Ms. Cameron was responsible for partnering with senior management to provide strategic human resources support in the areas of talent management, organizational development, employee relations, and managing employee capital. Prior to that, Ms. Cameron held various senior level Human Resources Business Partner and Training Specialist roles at a number of global institutions including Edelman Public Relations, Colgate Palmolive, and AOL Time Warner. She served as a regional Diversity Manager and Employee Assistance Program Counselor at American Express and was a practicing licensed psychotherapist for over 10 years. Ms. Cameron received a Masters of Social Work from the New York University School of Social Work and a Bachelor of Arts from the State University of New York at Stony Brook. Ms. Cameron is affiliated with the Society for Human Resource Management.

John Spencer, age 46, is a Senior Vice President and Chief Retail Officer of Carver Bancorp Inc. and Carver Federal Savings Bank. Mr. Spencer joined Carver in February 2009 from JP Morgan Chase as Senior Vice President. He held management positions in Retail Sales/Customer Service, Audit, and Operations Management. Additionally, he served as a Branch Administration Executive for the bank's Retail Division, supporting a network with 700 branches, and over \$50 billion in deposits. Mr. Spencer has a proven track record of operational excellence. He has significant experience in Retail Bank merger integration, and has also participated in Six Sigma Methodology projects. He earned a B.A. in Banking and Finance from Pace University.

Aditya Kishore, 48, is Senior Vice President of Operations. Mr. Kishore joined Carver in February 2011. A trained industrial and systems engineer, Mr. Kishore started his career in the ERP and Project Management field in India focusing on business process improvements and efficiencies. He later joined Mutual Bank, a \$1.6 billion bank in Chicago, as their Chief

Information Officer, where he was responsible for all of the bank's systems and IT Operations, including bank's back office operations, risk assessments, and new projects. Prior to that he worked at Byte Managers, Inc., a business process outsourcing firm, as Chief Technology Officer where for five years he led teams focused on operational efficiencies for various industries. Mr. Kishore later joined Fidelity National Information Services as their Chief of Banking Products, in Florida to develop and implement products to address Community Banks' operations and servicing needs of various banking operations and functions including retail, loans, and compliance. After Fidelity merged with Metavante Technologies, Mr. Kishore joined Hanover Community Bank, a de novo bank started in 2009, as the Chief Operating Officer and Chief Information Officer responsible for all operations of the bank. Mr. Kishore received his master's degree in industrial and systems engineering from the University of Illinois.

James A. Raborn, age 49, is Senior Vice President and Manager of Loan Workout and Loss Mitigation. Mr. Raborn joined Carver in April 2011 from Emigrant Bank where he served as First Vice President and Director of Foreclosure/Real Estate Owned for about four years. Mr. Raborn was responsible for oversight and management of a large volume of non-performing residential and commercial loans while at Emigrant. Prior to that Mr. Raborn was Counsel with the law firm of Riker Danzig Scherer Hyland & Perretti LLP in Morristown, New Jersey for over ten years. While at Riker Danzig, Mr. Raborn had an extensive real estate litigation practice and tried numerous cases involving real estate or real estate related issues. Mr. Raborn was also an Associate at the law firm of Norris McLaughlin & Marcus in Somerville, New Jersey for about three years. Immediately after graduating from law school, Mr. Raborn completed two, one year judicial clerkships with the Honorable Daniel H. Huyett, Judge, United States District Court for the Eastern District of Pennsylvania and the Honorable Stephen Skillman, Appellate Judge, Superior Court of New Jersey, Appellate Division. Mr. Raborn is a member of the New Jersey and Pennsylvania (inactive) bars. He received his juris doctor degree with honors from Rutgers University, Camden in May 1988. Mr. Raborn graduated cum laude from Tulane University, College of Arts and Sciences in May 1985 where he received his bachelor of arts degree in history and political science.

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.

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. There is also continued concern about the possibility of another economic downturn. The Federal Reserve, 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 sinking 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 Federal Reserve 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 Federal Reserve'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 manage problem assets.

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

At March 31, 2012, 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. Further 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 Bank is operating in a challenging and uncertain economic environment, both nationally and locally. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. Continued declines

in real estate values, home sales volumes and financial stress on borrowers as a result of the ongoing economic recession, including job losses, could have an adverse effect on the Bank's borrowers or their customers, which could adversely affect the Bank's financial condition and results of operations. In addition, decreases in real estate values could adversely affect the value of property used as collateral for loans. However, no assurance can be given that the original appraised values are reflective of current market conditions as the Bank has experienced material declines in real estate values in all markets in which it lends.

Further, significant increases in job losses and unemployment will have a negative impact on the financial condition of residential borrowers and their ability to remain current on their mortgage loans. A continuation or further deterioration in national and local economic conditions, including an accelerating pace of job losses, particularly 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 further increases in loan delinquencies, causing a decrease in the Bank's interest income as well as an adverse impact on the Bank's loan loss experience, causing an increase in the Bank's allowance for loan losses and related provision and a decrease in net income. Such deterioration could also adversely impact the demand for the Bank's products and services, and, accordingly, the Bank's results of operations.

No assurance can be given that these conditions will improve or will not worsen or that such conditions will not result in a decrease in the Bank's interest income or an adverse impact on loan losses.

Our business may be adversely affected by current conditions in the financial markets, the real estate market and economic conditions generally.

Beginning in the latter half of 2007 and continuing into 2012, negative developments in the capital markets resulted in uncertainty and instability in the financial markets, and an economic downturn. The housing market declined, resulting in decreasing home prices and increasing delinquencies and foreclosures. The credit performance of residential and commercial real estate, construction and land loans resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. The declines in the performance and value of mortgage assets encompassed all mortgage and real estate asset types, leveraged bank loans and nearly all other asset classes, including equity securities. These write-downs have caused many financial institutions to seek additional capital or to merge with larger and stronger institutions. Some financial institutions have failed. Continued, and potentially increased, volatility, instability and weakness could affect our ability to sell investment securities and other financial assets, which in turn could adversely affect our liquidity and financial position. This instability also could affect the prices at which we could make any such sales, which could adversely affect our earnings and financial condition.

Concerns over the stability of the financial markets and the economy have resulted in decreased lending by some financial institutions to their customers and to each other. This tightening of credit has led to increased loan delinquencies, lack of customer confidence, increased market volatility and a widespread reduction in general business activity. Competition among depository institutions for deposits has increased significantly, and access to deposits or borrowed funds has decreased for many institutions. It has also become more difficult to assess the creditworthiness of customers and to estimate the losses inherent in our loan portfolio.

Current conditions, including high unemployment, soft real estate markets, and the decline of home sales and property values, could negatively affect the volume of loan originations and prepayments, the value of the real estate securing our mortgage loans, and borrowers' ability to repay loan obligations, all of which could adversely impact our earnings and financial condition. Business activity across a wide range of industries and regions is greatly reduced, and local governments and many companies are in serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. A worsening of current conditions would likely adversely affect our business and results of operations, as well as those of our customers. As a result, we may experience increased foreclosures, delinquencies and customer bankruptcies, as well as more restricted access to funds.

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 multifamily loans and commercial real estate 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, multifamily and construction loans to within Board approved policy limits, Carver Federal continues to maintain a high concentration in this area and has begun, on a select basis renewing existing loans and making new loans. Management continues to believe this can be a valuable source of interest income. 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 Federal Reserve Board of Governors. 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 CRE 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.

Controls and procedures may fail or be circumvented, which may result in a material adverse effect on the Company's business.

Management regularly reviews and updates the Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on Carver's business, results of operations and financial condition.

Carver and the Bank operates 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 Federal Reserve. 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 Bank has evaluated the Guidance for compliance, risk management practices and underwriting guidelines as they relate to originations and purchases of the subject loans, or practices relating to communications with consumers. The Guidance has no impact on the Company's loan origination and purchase volumes or the Company's underwriting procedures currently or in future periods.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act implements significant changes in the financial regulatory landscape and will impact all financial institutions. This impact may materially affect our business activities, financial position and profitability by, among other things. Increasing our regulatory compliance burden and associated costs, placing restrictions on certain products and services,

and limiting our future capital raising strategies.

Among the Dodd-Frank Act's significant regulatory changes, it creates a new financial consumer protection agency, known as the Bureau of Consumer Financial Protection (the "Bureau"), that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The Bureau has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of federal consumer protection laws. The Dodd-Frank Act also eliminated our previous regulator, the OTS and designated the Comptroller of the Currency to become our primary bank regulator. Moreover, the Dodd-Frank Act permits States to adopt stricter consumer protection laws and authorizes State attorney generals' to enforce consumer protection rules issued by the Bureau. The Dodd-Frank Act also may affect the preemption of State laws as they affect subsidiaries and agents of federally chartered banks, changes the scope of federal deposit insurance coverage, and increases the FDIC assessment payable by the Bank. We expect that the Bureau and these other changes will significantly increase our regulatory compliance burden and costs and may restrict the financial products and services we offer to our customers.

The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier I capital. These restrictions will limit our future capital strategies. Under the Dodd-Frank Act, our outstanding trust preferred securities will continue to count as Tier I capital but we will be unable to issue replacement or additional trust preferred securities that would count as Tier I capital. Because many of the Dodd-Frank Act's provisions require subsequent regulatory rulemaking, we are uncertain as to the impact that some of the provisions will have on the Company and cannot provide assurance that the Dodd-Frank Act will not adversely affect our financial condition and results of operations for other reasons.

Changes in laws, government regulation and monetary policy may have a material effect on results of operations.

Financial institution regulation has been the subject of significant legislation and may be the subject of further significant legislation in the future, none of which is in the Company's control. Significant new laws or changes in, or repeals of, existing laws, including with respect to federal and state taxation, may cause results of operations to differ materially. In addition, cost of compliance could adversely affect Carver's ability to operate profitably. Further, federal monetary policy significantly affects credit conditions for Carver Federal, particularly as implemented through the Federal Reserve System. A material change in any of these conditions could have a material impact on Carver Federal, and therefore on the Company's results of operations.

On October 3, 2008, President Bush signed the Emergency Economic Stabilization Act of 2008 ("EESA") into law in response to the financial crises affecting the banking system and financial markets. Pursuant to the EESA, the US Treasury has the authority to, among other things, purchase up to \$700 billion of troubled assets (including mortgages, mortgage-backed securities and certain other financial instruments) from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On October 14, 2008, the US Treasury, the Federal Reserve Board and the FDIC issued a joint statement announcing additional steps aimed at stabilizing the financial markets. In this connection, the US Treasury announced the Troubled Assets Relief Program ("TARP") and the Capital Repurchase Program ("CPP"), a \$250 billion voluntary capital purchase program available to qualifying financial institutions that sell preferred shares to the US Treasury (to be funded from the \$700 billion authorized for troubled asset purchases.)

There can be no assurance, however, as to the actual impact that the foregoing or any other governmental program will have on the financial markets. The failure of any such program or the U.S. government to stabilize the financial markets and a continuation or worsening of current financial market conditions and the national and regional economy is expected to materially and adversely affect the Company's business, financial condition, results of operations, access to credit and the trading price of the Company's common stock.

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 voted and 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 the current restrictions and requirements and those the Treasury may choose to implement. The Company is unable to determine the impact future restrictions and/or requirements may have on results of operations.

Future Federal Deposit Insurance Corporation assessments will negatively impact our results of operations.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011. Any additional emergency special assessment or increases in insurance premiums imposed by the FDIC will likely negatively impact the Company's earnings.

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 Federal Reserve Board 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 and Federal Reserve Board regulates all capital distributions by the Bank to the Company, including dividend payments. As the subsidiary of a savings and loan association holding company, Carver Federal must file a notice or an application (depending on the proposed dividend amount) with the OCC and Federal Reserve Board prior to each capital distribution. The OCC and Federal Reserve Board will disallow any proposed dividend that would result in failure to meet the OCC minimum capital requirements. In accordance with the Orders, the Bank and Company are currently prohibited from paying any dividends without prior regulatory approval, and, as such, suspended the regularly quarterly cash dividend on its common stock. There are no assurances that the payments of dividends on the common stock will resume. The regulators also precluded future payment of debenture interest payments on the Carver Statutory Trust I (trust preferred securities ("TruPS")). 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 to generate taxable income 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, "New Markets Tax Credit Award."