CARVER BANCORP INC
Form 10-Q
February 09, 2015

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

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

For the quarterly period ended December 31, 2014

OR

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

For the transition period from to

Commission File Number: 1-13007

CARVER BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

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

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

þ Yes o No

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

þ Yes oNo

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

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

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

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

Class	Outstanding at February 6, 2015
Common Stock, par value $0.01	3,696,087

TABLE OF CONTENTS

Exhibit 32.1
Exhibit 32.2
Exhibit 101

PART I. FINANCIAL INFORMATION

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

$ in thousands except per share data	December 31, 2014 (unaudited)	March 31, 2014
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$55,944	$115,239
Money market investments	8,967	7,315
Total cash and cash equivalents	64,911	122,554
Restricted cash	6,354	6,354
Investment securities:		
Available-for-sale, at fair value	100,448	89,461
Held-to-maturity, at amortized cost (fair value of $12,433 and $8,971 at December 31, 2014 and March 31, 2014, respectively)	12,253	9,029
Total investment securities	112,701	98,490
Loans held-for-sale (“HFS”)	2,606	5,011
Loans receivable:		
Real estate mortgage loans	396,957	362,888
Commercial business loans	38,244	26,930
Consumer loans	333	138
Loans, net	435,534	389,956
Allowance for loan losses	(5,880)	(7,233)
Total loans receivable, net	429,654	382,723
Premises and equipment, net	7,328	7,830
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	2,439	3,101
Accrued interest receivable	2,659	2,557
Other assets	15,721	11,218
Total assets	$644,373	$639,838
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Savings	$93,095	$98,051
Non-interest bearing checking	51,584	53,232
Interest-bearing checking	30,302	24,271
Money market	148,676	127,655
Certificates of deposit	197,388	206,157
Total deposits	521,045	509,366
Advances from the FHLB-NY and other borrowed money	59,403	70,403
Other liabilities	9,735	8,900
Total liabilities	590,183	588,669
EQUITY		
Preferred stock, (par value $0.01 per share: 45,118 Series D shares, with a liquidation preference of $1,000 per share, issued and outstanding)	45,118	45,118
	61	61

Common stock (par value $0.01 per share: 10,000,000 shares authorized; 3,698,031 and 3,697,836 shares issued; 3,696,087 and 3,695,892 shares outstanding at December 31, 2014 and March 31, 2014, respectively)		
Additional paid-in capital	56,116	56,114
Accumulated deficit	(44,079)	(44,570)
Treasury stock, at cost (1,944 shares at December 31, 2014 and March 31, 2014)	(417)	(417)
Accumulated other comprehensive loss	(1,959)	(4,768)
Total equity attributable to Carver Bancorp, Inc.	54,840	51,538
Non-controlling interest	(650)	(369)
Total equity	54,190	51,169
Total liabilities and equity	$644,373	$639,838

See accompanying notes to consolidated financial statements

1

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
$ in thousands	2014	2013	2014	2013
Interest income:				
Loans	$4,677	$5,412	$14,838	$15,590
Mortgage-backed securities	197	247	595	796
Investment securities	345	313	998	1,009
Money market investments	46	32	181	121
Total interest income	5,265	6,004	16,612	17,516
Interest expense:				
Deposits	741	694	2,182	2,078
Advances and other borrowed money	272	285	815	888
Total interest expense	1,013	979	2,997	2,966
Net interest income	4,252	5,025	13,615	14,550
Recovery of loan losses	(1,151)	(1,052)	(2,645)	(726)
Net interest income after provision for loan losses	5,403	6,077	16,260	15,276
Non-interest income:				
Depository fees and charges	887	852	2,707	2,642
Loan fees and service charges	282	133	495	736
Gain on sale of securities	3	21	8	507
Gain (loss) on sale of loans, net	—	98	(2)	768
Gain (loss) on real estate owned	41	(149)	44	(280)
Lower of cost or market adjustment on loans held-for-sale	1	—	2	(232)
Other	194	255	919	775
Total non-interest income	1,408	1,210	4,173	4,916
Non-interest expense:				
Employee compensation and benefits (1)	2,997	4,033	8,784	9,047
Net occupancy expense	919	887	2,763	2,634
Equipment, net	229	298	656	682
Data processing	77	244	398	826
Consulting fees	369	119	767	331
Federal deposit insurance premiums	189	313	542	929
Other	2,009	2,357	6,178	5,682
Total non-interest expense (1)	6,789	8,251	20,088	20,131
Income (loss) before income taxes (1)	22	(964)	345	61
Income tax expense	62	6	135	94
Consolidated net (loss) income (1)	(40)	(970)	210	(33)
Less: Net (loss) income attributable to non-controlling interest	(151)	(147)	(281)	36
	$111	$(823)	$491	$(69)

Net income (loss) attributable to Carver Bancorp, Inc. (1)				
Earnings (loss) per common share (1):				
Basic	$0.03	$(0.22)	$0.13	$(0.02)
Diluted	0.03	(0.22)	0.13	(0.02)

See accompanying notes to consolidated financial statements

[1] Results for the three and nine month periods ended December 31, 2013 have been adjusted from previously issued results to include an additional charge of $716 thousand associated with terminating the Company's pension plan in December 2013. Refer to Note 1 for further detail.

2

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
$ in thousands	2014	2013	2014	2013
Net income (loss) attributable to Carver Bancorp, Inc.	$111	$(823)	$491	$(69)
Other comprehensive income (loss), net of tax:				
Change in unrealized loss of securities available-for-sale	1,103	(1,546)	2,817	(6,979)
Change in pension obligations	—	(647)	—	(647)
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax	3	21	8	507
Reclassification adjustment for termination of pension plan, net of tax	—	(1,148)	—	(1,148)
Total other comprehensive income (loss), net of tax	1,100	(1,066)	2,809	(6,985)
Total comprehensive income (loss), net of tax attributable to Carver Bancorp, Inc.	$1,211	$(1,889)	$3,300	$(7,054)

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended December 31, 2014
(Unaudited)

($ in thousands)	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated deficit	Non-controlling interest	Total Equity
Balance — March 31, 2014	$45,118	$61	$56,114	$(417)	$(4,768)	$(44,570)	$(369)	$51,169
Net income attributable to Carver Bancorp, Inc.	—	—	—	—	—	491	—	491
Other comprehensive income (loss), net of taxes	—	—	—	—	2,809	—	—	2,809
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(281)	(281)
Stock based compensation expense	—	—	2	—	—	—	—	2
Balance — December 31, 2014	$45,118	$61	$56,116	$(417)	$(1,959)	$(44,079)	$(650)	$54,190

See accompanying notes to consolidated financial statements

4

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

	Nine Months Ended December 31,	
($ in thousands)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) before attribution to noncontrolling interests	$210	$(33)
Net (loss) income attributable to noncontrolling interests, net of taxes	(281)	36
Net income (loss) attributable to Carver Bancorp, Inc.	491	(69)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Recovery of loan losses	(2,645)	(726)
Pension plan termination	—	1,148
Stock based compensation expense	2	1
Depreciation and amortization expense	779	819
(Gain) loss on real estate owned	(44)	280
Gain on sale of securities, net	(8)	(507)
Loss (gain) on sale of loans, net	2	(768)
Amortization and accretion of loan premiums and discounts and deferred charges	(1,042)	(1,266)
Amortization and accretion of premiums and discounts — securities	141	(359)
Market adjustment on held-for-sale loans	(2)	232
Proceeds from sale of loans held-for-sale	—	14,673
Assets repurchased from third parties	(174)	(1,932)
Increase in accrued interest receivable	(102)	(373)
Decrease in other assets	650	1,649
Increase (decrease) in other liabilities	553	(988)
Net cash (used in) provided by operating activities	(1,399)	11,814
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments: Available-for-sale	(17,534)	(30,180)
Purchases of securities: Held-to-maturity	(3,667)	—
Proceeds from principal payments, maturities, calls and sales of investments: Available-for-sale	9,057	49,899
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	571	2,072
Originations of loans held-for-investment	(41,558)	(50,124)
Loans purchased from third parties	(49,966)	(54,459)
Principal collections on loans	45,561	72,299
Proceeds on sale of loans	—	242
Decrease in restricted cash	—	4,110
Redemption (purchase) of FHLB-NY stock	662	(723)
Purchase of premises and equipment	(278)	(232)
Proceeds from sale of real estate owned	229	1,666
Net cash used in investing activities	(56,923)	(5,430)
CASH FLOW FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	11,679	(11,733)
Net (decrease) increase in FHLB-NY advances and other borrowings	(11,000)	19,000
Net cash provided by financing activities	679	7,267

Net (decrease) increase in cash and cash equivalents	(57,643)	13,651
Cash and cash equivalents at beginning of period	122,554	104,646
Cash and cash equivalents at end of period	$64,911	$118,297
Supplemental cash flow information:		
Noncash financing and investing activities		
Change in unrealized loss on valuation of available-for-sale investments, net	$2,810	$(7,479)
Transfers from loans held-for-investment to loans held-for-sale	$—	$9,001
Transfers to real estate owned	$2,434	$1,296
Cash paid for:		
Interest	$2,637	$2,669
Income taxes	$124	$130

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
NOTE 1. ORGANIZATION

Nature of operations

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

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

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

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

On February 7, 2011, Carver Federal Savings Bank and Carver Bancorp, Inc. consented to enter into Cease and Desist Orders (the “Bank Order” and the "Company Order," respectively, and together the "Orders") with the Office of Thrift Supervision (“OTS”). The OTS issued these Orders based upon its findings that the Company was operating with an inadequate level of capital for the volume, type and quality of assets held by the Company, that it was operating with an excessive level of adversely classified assets, and earnings inadequate to augment its capital. Effective July 21, 2011, supervisory authority for the Company Order passed to the Board of Governors of the Federal Reserve System and supervisory authority for the Bank Order passed to the Office of the Comptroller of the Currency (“OCC”). No assurances can be given that the Bank and the Company will continue to comply with all provisions of the Orders. Failure to comply with these provisions could result in further regulatory actions to be taken by the regulators.

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

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

Community Development Capital Initiative (“CDCI”) Series B preferred stock for common stock.

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

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

On November 3, 2014, the OCC notified the Bank that the OCC had determined that the Bank had satisfied all of the requirements of the Bank Order and directed that the Bank Order be terminated. In addition, the OCC notified the Bank that the OCC had determined that the Bank was no longer in “troubled condition” and was relieved of all prior conditions imposed on the Bank by the OTS as a result of its troubled condition designation. The Company Order has not been terminated.

Revisions

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

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

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended December 31, 2014 are not necessarily indicative of the results that may be expected for the year ended March 31, 2015. The consolidated balance sheet at December 31, 2014 has been derived from the unaudited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. These unaudited consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended March 31, 2014. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, valuation of real estate owned, realization of deferred tax assets, and the fair value of financial instruments. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses or future writedowns of real estate owned may be necessary based on changes in economic conditions in the areas where Carver Federal has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions. Current market conditions increase the risk and complexity of the judgments in these estimates.

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

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

NOTE 3. EARNINGS PER COMMON SHARE

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
$ in thousands except per share data	2014	2013	2014	2013
Earnings per common share				
Net income (loss) available to common shareholders of Carver Bancorp, Inc.	$111	$(823)	491	(69)
Weighted average common shares outstanding	3,696,420	3,696,225	3,696,338	3,696,123
Basic earnings (loss) per common share	$0.03	$(0.22)	$0.13	$(0.02)
Diluted earnings (loss) per common share	0.03	(0.22)	0.13	(0.02)

NOTE 4. COMMON STOCK DIVIDENDS

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

Debenture interest payments which had previously been deferred in March 2011 and June 2011 on the Carver Statutory Trust I trust preferred securities ("TruPS") were brought current in September 2011. The Company is prohibited from making future payments without prior approval. The expense continues to be accrued and the payments remain on deferral status.

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

NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth changes in each component of accumulated other comprehensive loss, net of tax for the nine months ended December 31, 2014 and 2013:

Nine months ended December 31, 2014 $ in thousands	At March 31, 2014	Other Comprehensive Income, net of tax	At December 31, 2014
Net unrealized loss on securities available-for-sale	$(4,768)	$2,809	$(1,959)
Accumulated other comprehensive loss, net of tax	$(4,768)	$2,809	$(1,959)

Nine months ended December 31, 2013 $ in thousands	At March 31, 2013	Pension Plan Adjustment	Other Comprehensive Income, net of tax	At December 31, 2013
Net unrealized loss on securities available-for-sale	$1,064	$—	$(7,486)	$(6,422)
Net unrealized loss on pension liability	(501)	(716)	1,217	—
Accumulated other comprehensive loss, net of tax	$563	$(716)	$(6,269)	$(6,422)

8

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

$ in thousands	For the Three Months Ended December 31, 2014	2013	For the Nine Months Ended December 31, 2014	2013	Affected Line Item in the Consolidated Statement of Operations
Reclassification adjustment for sales of available-for-sale securities, net of tax	3	21	8	507	Gain on sale of securities
Reclassification adjustment for termination of pension plan, net of tax	—	(1,148)	—	(1,148)	Employee compensation and benefits
Total reclassifications for the period	$3	$(1,127)	$8	$(641)	

NOTE 6. INVESTMENT SECURITIES

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

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. ASC Subtopic 320-10-25 requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At December 31, 2014, $100.4 million, or 89.1%, of the Bank's mortgage-backed and other investment securities were classified as available-for-sale, and the remaining $12.3 million, or 10.9%, were classified as held-to-maturity. The Bank had no securities classified as trading at December 31, 2014 and March 31, 2014.

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

$ in thousands	Amortized Cost	Gross Unrealized Gains	Losses	Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$5,637	$—	$(102)	$5,535
Federal Home Loan Mortgage Corporation	11,244	—	(220)	11,024
Federal National Mortgage Association	11,226	9	(152)	11,083
Other	47	—	—	47
Total mortgage-backed securities	28,154	9	(474)	27,689
U.S. Government Agency Securities	57,743	30	(1,238)	56,535
Other investments	16,513	—	(289)	16,224
Total available-for-sale	102,410	39	(2,001)	100,448
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	3,234	215	—	3,449
Federal National Mortgage Association	9,019	1	(36)	8,984
Total held-to-maturity mortgage-backed securities	12,253	216	(36)	12,433
Total securities	$114,663	$255	$(2,037)	$112,881

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

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

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

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

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

$ in thousands	Less than 12 months Unrealized Losses	Less than 12 months Fair Value	12 months or longer Unrealized Losses	12 months or longer Fair Value	Total Unrealized Losses	Total Fair Value
Available-for-Sale:						
Mortgage-backed securities	$(7)	$2,813	$(467)	$22,974	$(474)	$25,787
U.S. Government Agency Securities	(28)	4,930	(1,210)	42,599	(1,238)	47,529
Other investments [1]	—	—	(289)	9,711	(289)	9,711
Total available-for-sale securities	(35)	7,743	(1,966)	75,284	(2,001)	83,027
Held-to-Maturity:						
Mortgage-backed securities	—	—	(36)	4,971	(36)	4,971
Total held-to-maturity securities	—	—	(36)	4,971	(36)	4,971
Total securities	$(35)	$7,743	$(2,002)	$80,255	$(2,037)	$87,998

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

10

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

$ in thousands	Less than 12 months Unrealized Losses	Less than 12 months Fair Value	12 months or longer Unrealized Losses	12 months or longer Fair Value	Total Unrealized Losses	Total Fair Value
Available-for-Sale:						
Mortgage-backed securities	$(322)	$7,569	$(1,015)	$20,123	$(1,337)	$27,692
U.S. Government Agency Securities	(1,646)	34,074	(1,320)	18,115	(2,966)	52,189
Other investments [1]	(469)	9,531	—	—	(469)	9,531
Total available-for-sale securities	(2,437)	51,174	(2,335)	38,238	(4,772)	89,412
Held-to-Maturity:						
Mortgage-backed securities	(283)	4,796	—	—	(283)	4,796
Total held-to-maturity securities	(283)	4,796	—	—	(283)	4,796
Total securities	$(2,720)	$55,970	$(2,335)	$38,238	$(5,055)	$94,208

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

A total of 31 securities had an unrealized loss at December 31, 2014 compared to 35 at March 31, 2014. The majority of the securities in an unrealized loss position were U.S. Government Agency securities and mortgage-backed securities, representing 68.9% and 31.1%, respectively, of total available-for-sale securities in an unrealized loss position at December 31, 2014. There were fifteen mortgage-backed securities and eight U.S. Government Agency securities in an unrealized loss position that had an unrealized loss for more than 12 months at December 31, 2014. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, the risk of credit loss is minimal. Management believes that these unrealized losses are a direct result of the current rate environment and has the ability and intent to hold the securities until maturity or the valuation recovers.

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

The following is a summary of the carrying value (amortized cost) and fair value of securities at December 31, 2014, by remaining period to contractual maturity (ignoring earlier call dates, if any). Actual maturities may differ from contractual maturities because certain security issuers have the right to call or prepay their obligations. The table below does not consider the effects of possible prepayments or unscheduled repayments.

$ in thousands	Amortized Cost	Fair Value	Weighted Average Yield
Available-for-Sale:			
Less than one year	$5,533	$5,533	0.25 %
One through five years	16,480	16,404	1.34 %
Five through ten years	24,349	23,616	1.83 %
After ten years	56,048	54,895	1.74 %
Total	$102,410	$100,448	1.61 %
Held-to-maturity:			
Five through ten years	$5,007	$4,971	2.38 %
After ten years	7,246	7,462	2.89 %

Total	$12,253	$12,433	2.68	%

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

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

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

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

The following is a summary of loans receivable, net of allowance for loan losses, and loans held-for-sale at December 31, 2014 and March 31, 2014:

	December 31, 2014		March 31, 2014	
$ in thousands	Amount	Percent	Amount	Percent
Gross loans receivable:				
One-to-four family	$125,994	29 %	$111,220	29 %
Multifamily	63,576	15 %	47,399	12 %
Commercial real estate	200,892	46 %	198,808	51 %
Construction	5,104	1 %	5,100	1 %
Business	38,371	9 %	27,149	7 %
Consumer [1]	333	— %	138	— %
Total loans receivable	$434,270	100 %	$389,814	100 %
Add:				
Premium on loans	1,400		957	
Less:				
Deferred fees and loan discounts,net	(136)		(815)	
Allowance for loan losses	(5,880)		(7,233)	
Total loans receivable, net	$429,654		$382,723	

[1] Includes personal loans

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the three and nine month periods ended December 31, 2014 and 2013, and the fiscal year ended March 31, 2014.

Three months ended December 31, 2014

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$3,301	$372	$1,154	$214	$1,535	$21	$6,597
Charge-offs	112	—	—	—	—	—	112
Recoveries	—	—	2	—	540	4	546
Provision for (Recovery of) Loan Losses	225	(19)	(291)	(53)	(1,004)	(9)	(1,151)
Ending Balance	$3,414	$353	$865	$161	$1,071	$16	$5,880

12

Nine months ended December 31, 2014

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$3,377	$308	$1,835	$—	$1,705	$8	$7,233
Charge-offs	195	—	—	—	—	—	195
Recoveries	379	82	256	—	763	7	1,487
Provision for (Recovery of) Loan Losses	(147)	(37)	(1,226)	161	(1,397)	1	(2,645)
Ending Balance	$3,414	$353	$865	$161	$1,071	$16	$5,880
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	2,515	172	832	161	828	15	4,523
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	899	181	32	—	244	1	1,357
Loan Receivables Ending Balance	$127,417	$64,138	$200,334	$5,074	$38,244	$327	$435,534
Ending Balance: collectively evaluated for impairment	120,367	62,648	196,229	5,074	33,638	320	418,276
Ending Balance: individually evaluated for impairment	7,050	1,490	4,105	—	4,606	7	17,258

Fiscal year ended March 31, 2014

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

Three months ended December 31, 2013

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 4,223	$ 394	$ 2,888	$ 210	$ 1,602	$ 29	$ 53	$ 9,399
Charge-offs	—	98	58	—	179	—	—	335
Recoveries	13	7	—	149	230	4	—	403
Provision for (Recovery of) Loan Losses	(169)	78	(610)	(359)	112	(51)	(53)	(1,052)
Ending Balance	$ 4,067	$ 381	$ 2,220	$ —	$ 1,765	$ (18)	$ —	$ 8,415

13

Nine months ended December 31, 2013

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Total
Allowance for loan losses:							
Beginning Balance	$3,496	$408	$3,298	$—	$3,759	$28	$10,989
Charge-offs	1,619	98	570	—	572	15	2,874
Recoveries	515	23	—	149	326	13	1,026
Provision for (Recovery of) Loan Losses	1,675	48	(508)	(149)	(1,748)	(44)	(726)
Ending Balance	$4,067	$381	$2,220	$—	$1,765	$(18)	$8,415
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	3,636	329	1,971	—	1,212	16	7,164
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	431	52	249	—	519	—	1,251
Loan Receivables Ending Balance:	$118,187	$47,544	$194,019	$5,068	$28,083	$262	$393,163
Ending Balance: collectively evaluated for impairment	110,268	46,181	181,435	5,068	23,022	261	366,235
Ending Balance: individually evaluated for impairment	7,919	1,363	12,584	—	5,061	1	26,928

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

$ in thousands	December 31, 2014	March 31, 2014
Gross loans receivable:		
One-to-four family	$3,089	$2,301
Multifamily	1,053	2,240
Commercial real estate	2,850	7,024
Business	1,550	993
Consumer	7	1
Total nonaccrual loans	$8,549	$12,559

Nonaccrual loans decreased $4.0 million, or 31.9%, to $8.5 million at December 31, 2014 from $12.6 million at March 31, 2014.

Non-performing loans at December 31, 2014, were comprised of $4.8 million of loans 90 days or more past due and non-accruing, and included $3.7 million of loans classified as a troubled debt restructuring which had either not consistently performed in accordance with their modified terms or were not performing in accordance with their modified terms for at least six months.

Non-performing loans at March 31, 2014, were comprised of $9.0 million of loans 90 days or more past due and non-accruing, and included $3.0 million of loans classified as a troubled debt restructuring which had either not consistently performed in accordance with their modified terms or were not performing in accordance with their modified terms for at least six months.

At December 31, 2014, other non-performing assets totaled $6.5 million which consisted of other real estate owned and held-for-sale loans. At December 31, 2014, other real estate owned valued at $3.9 million comprised of nine foreclosed properties, compared to $1.4 million comprised of eight properties at March 31, 2014. At December 31, 2014, held-for-sale loans totaled $2.6 million, compared to $5.0 million at March 31, 2014.

The Bank utilizes an internal loan classification system as a means of reporting problem loans within its loan categories. Loans may be classified as "Pass," “Special Mention,” “Substandard,” “Doubtful,” and “Loss.” Loans rated Pass have demonstrated satisfactory asset quality, earning history, liquidity, and other adequate margins of creditor protection. They represent a moderate credit risk and some degree of financial stability. Loans are considered collectible in full, but perhaps require greater than average amount of loan officer attention. Borrowers are capable of absorbing normal setbacks without failure. Loans rated Special Mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Loans rated Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans rated Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged off immediately to the allowance for loan losses.

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

As of December 31, 2014, the risk category by class of loans is as follows:

$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$62,648	$193,905	$5,074	$31,908
Special Mention	—	2,519	—	889
Substandard	1,490	3,910	—	5,447
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$64,138	$200,334	$5,074	$38,244

	One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:		
Performing	$123,280	$313
Non-Performing	4,137	14
Total	$127,417	$327

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

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

	One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:		

Performing	$109,890	$137
Non-Performing	2,301	1
Total	$112,191	$138

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

December 31, 2014

$ in thousands	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Financing Receivables
One-to-four family	$1,126	$—	$3,011	$4,137	$123,280	$127,417
Multifamily	—	437	1,053	1,490	62,648	64,138
Commercial real estate	3,581	—	1,115	4,696	195,638	200,334
Construction	—	—	—	—	5,074	5,074
Business	—	—	741	741	37,503	38,244
Consumer	—	7	7	14	313	327
Total	$4,707	$444	$5,927	$11,078	$424,456	$435,534

March 31, 2014

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

The following table presents information on impaired loans with the associated allowance amount, if applicable, at December 31, 2014 and March 31, 2014.

	At December 31, 2014			At March 31, 2014		
$ in thousands	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Recorded Investment	Unpaid Principal Balance	Associated Allowance
With no specific allowance recorded:						
One-to-four family	$753	$1,106	$—	$639	$893	—
Multifamily	156	156	—	—	—	—
Commercial real estate	2,937	3,109	—	3,972	4,147	—
Business	952	952	—	341	402	—
Consumer	—	—	—	1	1	—
With an allowance recorded:						
One-to-four family	6,297	6,425	899	5,833	5,958	520
Multifamily	1,334	1,432	181	2,240	2,240	92
Commercial real estate	1,168	1,168	32	4,812	5,023	255
Business	3,654	3,737	244	4,664	4,664	764
Consumer and other	7	7	1	—	—	—
Total	$17,258	$18,092	$1,357	$22,502	$23,328	$1,631

16

The following tables presents information on average balances on impaired loans and the interest income recognized on a cash basis for the three and nine month period ended December 31, 2014 and 2013. All impaired loans during the period were carried on cash-basis nonaccrual

	For the Three Months Ended December 31,				For the Nine Months Ended December 31,			
	2014		2013		2014		2013	
$ in thousands	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
With no specific allowance recorded:								
One-to-four family	$736	$2	$1,793	$4	$731	$11	$1,889	$5
Multifamily	157	—	1,206	5	137	—	519	6
Commercial real estate	2,945	22	9,086	65	2,660	136	9,104	127
Construction	—	—	38	—	—	—	615	—
Business	1,014	11	1,953	40	1,032	89	1,684	47
Consumer and other	—	—	1		—	—	1	
With an allowance recorded:								
One-to-four family	6,299	$14	5,210	58	6,106	101	5,464	98
Multifamily	1,334	2	162	—	1,336	17	162	—
Commercial real estate	1,171	(15)	3,041	32	684	24	5,138	37
Business	3,678	28	2,870	78	3,466	106	—	—
Consumer and other	7	—	—		7	—	3,728	114
Total	$17,341	$64	$25,360	$282				