CARVER BANCORP INC
Form 10-Q
February 14, 2019
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, 2018

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: 001-13007

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

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

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

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 every Interactive Data File required to be submitted 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 such files). þ Yes oNo

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

o Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer þ Smaller Reporting Company
o Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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 13, 2019
Common Stock, par value $0.01	3,698,864

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PART I. FINANCIAL INFORMATION

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

$ in thousands except per share data	December 31, 2018	March 31, 2018
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$39,564	$134,299
Money market investments	509	259
Total cash and cash equivalents	40,073	134,558
Investment securities:		
Available-for-sale, at fair value	102,330	60,709
Held-to-maturity, at amortized cost (fair value of $11,194 and $11,909 at December 31, 2018 and March 31, 2018, respectively)	11,340	12,075
Equity securities	416	—
Total investment securities	114,086	72,784
Loans receivable:		
Real estate mortgage loans	323,833	370,261
Commercial business loans	99,118	102,203
Consumer loans	4,456	5,289
Loans, gross	427,407	477,753
Allowance for loan losses	(4,802)	(5,126)
Total loans receivable, net	422,605	472,627
Premises and equipment, net	5,252	2,970
Federal Home Loan Bank of New York (“FHLB-NY”) stock, at cost	566	1,768
Accrued interest receivable	2,068	2,023
Other assets	5,775	7,180
Total assets	$590,425	$693,910
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing checking	$61,791	$62,905
Interest-bearing deposits:		
Interest-bearing checking	27,723	23,570
Savings	99,267	102,550
Money market	93,853	101,990
Certificates of deposit	229,095	293,513
Escrow	1,288	2,355
Total interest-bearing deposits	451,226	523,978
Total deposits	513,017	586,883
Advances from the FHLB-NY and other borrowed money	13,403	38,403
Other liabilities	16,110	16,653
Total liabilities	542,530	641,939
EQUITY		

Preferred stock, (par value $0.01 per share: 45,118 Series D shares, with a liquidation preference of $1,000 per share, issued and outstanding)	45,118	45,118
Common stock (par value $0.01 per share: 10,000,000 shares authorized; 3,700,608 and 3,698,031 shares issued; 3,698,864 and 3,697,914 shares outstanding at December 31, 2018 and March 31, 2018, respectively)	61	61
Additional paid-in capital	55,513	55,479
Accumulated deficit	(50,661)	(45,544)
Treasury stock, at cost (1,944 shares)	(417)	(417)
Accumulated other comprehensive loss	(1,719)	(2,726)
Total equity	47,895	51,971
Total liabilities and equity	$590,425	$693,910

See accompanying notes to consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
$ in thousands, except per share data	2018	2017	2018	2017
Interest income:				
Loans	$4,640	$5,471	$14,757	$16,920
Mortgage-backed securities	386	238	897	733
Investment securities	326	163	915	477
Money market investments	214	181	1,037	433
Total interest income	5,566	6,053	17,606	18,563
Interest expense:				
Deposits	1,263	1,073	4,013	2,961
Advances and other borrowed money	207	291	683	873
Total interest expense	1,470	1,364	4,696	3,834
Net interest income	4,096	4,689	12,910	14,729
(Recovery of) provision for loan losses	(332)	6	(278)	130
Net interest income after (recovery of) provision for loan losses	4,428	4,683	13,188	14,599
Non-interest income:				
Depository fees and charges	862	817	2,549	2,563
Loan fees and service charges	114	172	256	414
Gain (loss) on sale of loans, net	—	—	(23)	—
Gain on sale of building, net	154	18	462	52
Other	197	339	466	665
Total non-interest income	1,327	1,346	3,710	3,694
Non-interest expense:				
Employee compensation and benefits	3,003	3,204	9,283	9,335
Net occupancy expense	902	856	3,188	2,555
Equipment, net	323	242	882	626
Data processing	457	385	1,294	1,203
Consulting fees	102	186	211	620
Federal deposit insurance premiums	170	163	666	460
Wire fraud loss	453	—	453	—
Other	1,660	1,906	5,217	5,582
Total non-interest expense	7,070	6,942	21,194	20,381
Loss before income taxes	(1,315)	(913)	(4,296)	(2,088)
Income tax expense	34	31	100	91
Net loss	$(1,349)	$(944)	$(4,396)	$(2,179)
Net loss per common share:				
Basic	$(0.36)	$(0.26)	$(1.19)	$(0.59)
Diluted	(0.36)	(0.26)	(1.19)	(0.59)

See accompanying notes to consolidated financial statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
$ in thousands	2018	2017	2018	2017
Net loss	$(1,349)	$(944)	$(4,396)	$(2,179)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) of securities available-for-sale, net of income tax expense of $0	972	(305)	286	203
Total comprehensive loss, net of tax	$(377)	$(1,249)	$(4,110)	$(1,976)

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, 2018 and 2017
(Unaudited)

$ in thousands	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance — March 31, 2018	$45,118	$ 61	$ 55,479	$ (45,544)	$ (417)	$ (2,726)	$51,971
Net loss	—	—	—	(4,396)	—	—	(4,396)
Other comprehensive income, net of taxes	—	—	—	—	—	286	286
AOCI reclassification (adoption of ASU 2016-01)	—	—	—	(721)	—	721	—
Stock based compensation expense	—	—	34	—	—	—	34
Balance — December 31, 2018	$45,118	$ 61	$ 55,513	$ (50,661)	$ (417)	$ (1,719)	$47,895
Balance — March 31, 2017	$45,118	$ 61	$ 55,474	$ (50,898)	$ (417)	$ (1,940)	$47,398
Net loss	—	—	—	(2,179)	—	—	(2,179)
Other comprehensive income, net of taxes	—	—	—	—	—	203	203
Stock based compensation expense	—	—	3	—	—	—	3
Balance — December 31, 2017	$45,118	$ 61	$ 55,477	$ (53,077)	$ (417)	$ (1,737)	$45,425

See accompanying notes to consolidated financial statements

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

	Nine Months Ended December 31,	
$ in thousands	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(4,396)	$(2,179)
Adjustments to reconcile net loss to net cash used in operating activities:		
(Recovery of) provision for loan losses	(278)	130
Stock based compensation expense	34	3
Depreciation and amortization expense	579	602
Gain on sale of real estate owned, net of market value adjustment	(208)	(250)
Loss on redemption of equity securities, net	27	—
Loss on sale of loans, net	23	—
Gain on sale of building	(462)	(52)
Amortization and accretion of loan premiums and discounts and deferred charges	375	171
Amortization and accretion of premiums and discounts — securities	355	255
Increase in accrued interest receivable	(45)	(145)
Decrease (increase) in other assets	1,049	(4,739)
Decrease in other liabilities	(541)	(473)
Net cash used in operating activities	(3,488)	(6,677)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments: Available-for-sale	(58,220)	—
Proceeds from principal payments, maturities and calls of investments: Available-for-sale	6,847	3,916
Proceeds from principal payments, maturities and calls of investments: Held-to-maturity	704	998
Proceeds from redemption of equity securities	9,199	—
Originations of loans held-for-investment, net of repayments	49,545	46,768
Proceeds on sale of loans	232	1,986
Decrease in restricted cash	—	283
Redemption of FHLB-NY stock, net	1,202	403
Purchase of premises and equipment	(2,861)	(1,145)
Proceeds from sales of real estate owned	1,221	878
Net cash provided by investing activities	7,869	54,087
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	(73,866)	(18,455)
Repayment of FHLB-NY advances and other borrowings	(25,000)	(11,000)
Net cash used in financing activities	(98,866)	(29,455)
Net (decrease) increase in cash and cash equivalents	(94,485)	17,955
Cash and cash equivalents at beginning of period	134,558	58,686
Cash and cash equivalents at end of period	$40,073	$76,641
Supplemental cash flow information:		
Noncash financing and investing activities		
Transfers (from) to held-for-sale loans (to) from portfolio loans	$—	$(944)
Transfers to real estate owned	$142	$867

Cash paid for:		
Interest	$3,983	$3,305
Income taxes	$77	$225

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 real estate investment trust, Carver Asset Corporation ("CAC"), that was 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.

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 eight branches located throughout the City of New York that primarily serve the communities in which they operate.

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. On September 17, 2003, Carver Statutory Trust I issued 13,000 shares, liquidation amount $1,000 per share, of floating rate capital securities. Gross proceeds from the sale of these trust preferred debt securities of $13 million, and proceeds from the sale of the trust's common securities of $0.4 million, were used to purchase approximately $13.4 million aggregate principal amount of the Company's floating rate junior subordinated debt securities due 2033. The trust preferred debt securities are redeemable at par quarterly at the option of the Company beginning on or after September 17, 2008, and have a mandatory redemption date of September 17, 2033. Cash distributions on the trust preferred debt securities are cumulative and payable at a floating rate per annum resetting quarterly with a margin of 3.05% over the three-month LIBOR. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through September 2016. Such payments were made in September 2016. Interest on the debentures has been deferred beginning with the December 2016 payment, per the terms of the agreement, which permit such deferral for up to twenty consecutive quarters, as the Company is prohibited from making payments without prior regulatory approval. The interest rate was 5.84% and the total amount of deferred interest was $1.5 million at December 31, 2018.

Carver relies primarily on dividends from Carver Federal to pay cash dividends to its stockholders, to engage in share repurchase programs and to pay principal and interest on its trust preferred debt obligation. The OCC regulates all capital distributions, including dividend payments, by Carver Federal to Carver, and the FRB regulates dividends paid by Carver. 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 a notice with the FRB) prior to the declaration of each capital distribution. The OCC will disallow any proposed dividend, for among other reasons, that would result in Carver Federal’s failure to meet the OCC minimum capital requirements. In accordance with the Agreement, Carver Federal is currently prohibited from paying any dividends without prior OCC approval, and, as such, has suspended Carver’s regular quarterly cash dividend on its common stock. There are no assurances that dividend payments to Carver will resume.

Regulation

On October 23, 2015, the Board of Directors of the Company adopted resolutions requiring, among other things, written approval from the Federal Reserve Bank of Philadelphia prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock.

On May 24, 2016, the Bank entered into a Formal Agreement with the OCC to undertake certain compliance-related and other actions as further described in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on May 27, 2016. As a result of the Formal Agreement ("the Agreement"), the Bank must obtain the approval of the OCC prior to effecting any change in its directors or senior executive officers. The Bank may not declare or pay dividends or make any other capital distributions, including to the Company, without first filing an application with the OCC and receiving the prior approval of the OCC. Furthermore, the Bank must seek the OCC's written approval and the FDIC's written concurrence before entering into any "golden parachute payments" as that term is defined under 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359.

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, 2018 are not necessarily indicative of the results that may be expected for the year ended March 31, 2019. The consolidated balance sheet at December 31, 2018 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, 2018. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, realization of deferred tax assets, assessment of other-than-temporary impairment of securities, 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.

Certain comparative amounts for the prior period have been reclassified to conform to current period presentations. Such reclassifications had no effect on net income or shareholders' equity.

NOTE 3. LOSS PER COMMON SHARE

The following table reconciles the net loss (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted loss per share for the following periods:

	Three Months Ended December 31,		Nine Months Ended December 31,	
$ in thousands except per share data	2018	2017	2018	2017
Net loss	$(1,349)	$ (944)	(4,396)	(2,179)
Weighted average common shares outstanding - basic	3,698,701	3,698,020	3,698,424	3,697,753
Weighted average common shares outstanding – diluted	3,698,701	3,698,020	3,698,424	3,697,753

Basic loss per common share	$(0.36)	$ (0.26)	$(1.19)	$ (0.59)
Diluted loss per common share	$(0.36)	$ (0.26)	$(1.19)	$ (0.59)

For the three and nine months ended December 31, 2018 and 2017, all MRP shares and outstanding stock options were anti-dilutive.

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NOTE 4. COMMON STOCK DIVIDENDS

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 income (loss), net of tax for the nine months ended December 31, 2018 and 2017:

$ in thousands	At March 31, 2018	ASU 2016-01 reclassification	Other Comprehensive Income, net of tax	At December 31, 2018
Net unrealized loss on securities available-for-sale	$(2,726)	$ 721	$ 286	$(1,719)

$ in thousands	At March 31, 2017	Other Comprehensive Income, net of tax	At December 31, 2017
Net unrealized loss on securities available-for-sale	$(1,940)	$ 203	$(1,737)

There were no reclassifications out of accumulated other comprehensive loss to the consolidated statement of operations for the nine months ended December 31, 2018 and 2017.

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. GAAP requires that securities be classified into three categories: trading, held-to-maturity, and available-for-sale. At December 31, 2018, $102.3 million, or 89.7%, of the Bank’s total securities were classified as available-for-sale, $11.3 million, or 9.9%, were classified as held-to-maturity and $416 thousand, or 0.4%, were classified as equity securities. The Bank had no securities classified as trading at December 31, 2018 and March 31, 2018.

Equity securities primarily consist of the Bank's investment in a Community Reinvestment Act ("CRA") mutual fund and other equity investments. As a result of the adoption of ASU 2016-01 in April 2018, the Company determined that these investments fall under the provisions of ASU 2016-01, and accordingly, were transferred from available-for-sale and reclassified into equity securities on the Statement of Financial Condition. These securities are measured at fair value with unrealized holding gains and losses reflected in net income. Effective April 1, 2018, the Company recorded a cumulative effect adjustment of $721 thousand as a reclassification from accumulated other comprehensive loss to retained earnings. Additionally, all future changes in fair value will be recognized in the Statements of Operations.

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The following tables set forth the amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2018 and March 31, 2018:

	At December 31, 2018			
	Amortized	Gross Unrealized		
$ in thousands	Cost	Gains	Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$4,583	$8	$130	$4,461
Federal Home Loan Mortgage Corporation	15,527	82	231	15,378
Federal National Mortgage Association	27,701	78	963	26,816
Total mortgage-backed securities	47,811	168	1,324	46,655
U.S. Government Agency Securities	34,801	—	322	34,479
U.S. Treasury Securities	16,377	—	37	16,340
Corporate Bonds	5,060	—	204	4,856
Total available-for-sale	$104,049	$168	$1,887	$102,330
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	$1,250	$33	$—	$1,283
Federal National Mortgage Association and Other	9,090	—	202	8,888
Total held-to-maturity mortgage-backed securities	10,340	33	202	10,171
Corporate Bonds	1,000	23	—	1,023
Total held-to maturity	$11,340	$56	$202	$11,194

	At March 31, 2018			
	Amortized	Gross Unrealized		
$ in thousands	Cost	Gains	Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$2,163	$—	$97	$2,066
Federal Home Loan Mortgage Corporation	6,633	—	283	6,350
Federal National Mortgage Association	24,638	—	1,227	23,411
Total mortgage-backed securities	33,434	—	1,607	31,827
U.S. Government Agency Securities	14,490	—	258	14,232
Corporate Bonds	5,078	—	212	4,866
Other investments (1)	10,433	—	649	9,784
Total available-for-sale	$63,435	$—	$2,726	$60,709
Held-to-Maturity*:				
Mortgage-backed securities:				
Government National Mortgage Association	$1,434	$51	$—	$1,485
Federal National Mortgage Association and Other	9,641	—	247	9,394
Total held-to-maturity mortgage-backed securities	11,075	51	247	10,879
Corporate Bonds	1,000	30	—	1,030
Total held-to-maturity	$12,075	$81	$247	$11,909

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

(1) Primarily comprised of an investment in a CRA fund with 95% of its underlying investments consisting of government and agency-backed securities.

There were no sales of available-for-sale and held-to-maturity securities for the three and nine months ended December 31, 2018 and 2017.

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The following tables set forth the unrealized losses and fair value of securities in an unrealized loss position at December 31, 2018 and March 31, 2018 for less than 12 months and 12 months or longer:

	At December 31, 2018					
	Less than 12 months		12 months or longer		Total	
$ in thousands	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$—	$—	$1,324	$27,011	$1,324	$27,011
U.S. Government Agency securities	160	28,368	162	6,111	322	34,479
U.S. Treasury securities	37	16,340	—	—	37	16,340
Corporate Bonds	—	—	204	4,856	204	4,856
Total available-for-sale securities	$197	$44,708	$1,690	$37,978	$1,887	$82,686
Held-to-Maturity:						
Mortgage-backed securities	$—	$—	$202	$8,802	$202	$8,802
Total held-to-maturity securities	$—	$—	$202	$8,802	$202	$8,802

	At March 31, 2018					
	Less than 12 months		12 months or longer		Total	
$ in thousands	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$101	$3,702	$1,506	$28,124	$1,607	$31,826
U.S. Government Agency securities	80	7,666	178	6,566	258	14,232
Corporate bonds	—	—	212	4,866	212	4,866
Other investments (1)	—	—	649	9,351	649	9,351
Total available-for-sale securities	$181	$11,368	$2,545	$48,907	$2,726	$60,275
Held-to-Maturity:						
Mortgage-backed securities	$188	$7,681	$59	$1,612	$247	$9,293
Total held-to-maturity securities	$188	$7,681	$59	$1,612	$247	$9,293

(1) Primarily comprised of an investment in a CRA fund with 95% of its underlying investments consisting of government and agency-backed securities.

A total of 37 securities had an unrealized loss at December 31, 2018 compared to 35 at March 31, 2018. U.S. government agency securities and mortgage-backed securities represented 41.7% and 32.7%, respectively, of total available-for-sale securities in an unrealized loss position at December 31, 2018. There were 18 mortgage-backed securities, three U.S. government agency securities, and five corporate bonds that had an unrealized loss position for more than 12 months at December 31, 2018. Given the high credit quality of the securities which are backed by the U.S. government's guarantees, and the corporate securities which are all reputable institutions in good financial standing, 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 until 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 is accounted for as follows: (1) the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and (2) the remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). During the fiscal year ended March 31, 2018, the Bank recognized an impairment of less than $500 on a mortgage-backed security. The Bank did not have any other securities that were classified as having other-than-temporary impairment in its investment portfolio at December 31, 2018.

The following is a summary of the amortized cost and fair value of debt securities at December 31, 2018, 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	$8,495	$8,472	2.05 %
One through five years	17,650	17,364	2.05 %
Five through ten years	18,466	18,077	2.73 %
After ten years	59,438	58,417	2.84 %
Total	$104,049	$102,330	2.63 %
Held-to-maturity:			
One through five years	$4,585	$4,508	2.40 %
Five through ten years	$4,025	$3,992	3.46 %
After ten years	2,730	2,694	2.70 %
Total	$11,340	$11,194	2.85 %

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

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

The allowance for loan and lease losses ("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 at December 31, 2018 and March 31, 2018:

	December 31, 2018		March 31, 2018	
$ in thousands	Amount	Percent	Amount	Percent
Gross loans receivable:				
One-to-four family	$110,105	26.0 %	$121,233	25.6 %
Multifamily	86,962	20.5 %	103,887	21.9 %
Commercial real estate	123,860	29.2 %	141,835	29.9 %
Business [1]	98,887	23.3 %	102,004	21.5 %
Consumer [2]	4,412	1.0 %	5,238	1.1 %
Total loans receivable	$424,226	100.0%	$474,197	100.0%
Unamortized premiums, deferred costs and fees, net	3,181		3,556	

Allowance for loan losses	(4,802)	(5,126)
Total loans receivable, net	$422,605	$472,627

(1) Includes business overdrafts

(2) Includes personal loans and consumer overdrafts

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, 2018 and 2017, and the fiscal year ended March 31, 2018.

Three months ended December 31, 2018

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 1,481	$ 939	$ 702	$ —	$ 1,530	$ 140	$ —	$ 4,792
Charge-offs	(6)	—	—	—	(490)	(7)	—	(503)
Recoveries	186	—	—	—	658	1	—	845
Provision for (recovery of) Loan Losses	(198)	(65)	36	—	(320)	(12)	227	(332)
Ending Balance	$ 1,463	$ 874	$ 738	$ —	$ 1,378	$ 122	$ 227	$ 4,802

Nine months ended December 31, 2018

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 1,210	$ 1,819	$ 1,052	$ —	$ 1,003	$ 18	$ 24	$ 5,126
Charge-offs	(151)	(100)	—	—	(830)	(12)	—	(1,093)
Recoveries	186	158	—	—	667	36	—	1,047
Provision for (recovery of) Loan Losses	218	(1,003)	(314)	—	538	80	203	(278)
Ending Balance	$ 1,463	$ 874	$ 738	$ —	$ 1,378	$ 122	$ 227	$ 4,802
December 31, 2018:								
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	$ 1,288	$ 874	$ 738	$ —	$ 1,360	$ 122	$ 227	$ 4,609
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	175	—	—	—	18	—	—	193
Loan Receivables Ending Balance:	$ 111,776	$ 87,705	$ 124,352	$ —	$ 99,118	$ 4,456	$ —	$ 427,407
Ending Balance: collectively evaluated for impairment	106,333	84,997	123,870	—	95,544	4,456	—	415,200
Ending Balance: individually evaluated for impairment	5,443	2,708	482	—	3,574	—	—	12,207

At March 31, 2018

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for Loan Losses Ending Balance: collectively evaluated for impairment	$ 1,065	$ 1,744	$ 1,052	$ —	$ 908	$ 18	$ 24	$ 4,811
Allowance for Loan Losses Ending Balance: individually evaluated for impairment	145	75	—	—	95	—	—	315

Loan Receivables Ending Balance:	$ 123,092	$ 104,865	$ 142,304	$ —	$ 102,203	$ 5,289	$ —	$ 477,753
Ending Balance: collectively evaluated for impairment	116,588	103,160	140,765	—	98,914	5,289	—	464,716
Ending Balance: individually evaluated for impairment	6,504	1,705	1,539	—	3,289	—	—	13,037

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Three months ended December 31, 2017

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 1,179	$ 1,369	$ 1,692	$ —	$ 832	$ 20	$ 34	$5,126
Charge-offs	—	(36)	—	—	(27)	(7)	—	(70)
Recoveries	—	—	5	—	3	—	—	8
Provision for (recovery of) Loan Losses	(52)	(25)	(25)	—	(31)	8	131	6
Ending Balance	$ 1,127	$ 1,308	$ 1,672	$ —	$ 777	$ 21	$ 165	$5,070

Nine months ended December 31, 2017

$ in thousands	One-to-four family	Multifamily	Commercial Real Estate	Construction	Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning Balance	$ 1,663	$ 1,213	$ 1,496	$ 106	$ 573	$ 9	$ —	$5,060
Charge-offs	(93)	(42)	—	—	(47)	(29)	—	(211)
Recoveries	—	—	15	—	72	4	—	91
Provision for (recovery of) Loan Losses	(443)	137	161	(106)	179	37	165	130
Ending Balance	$ 1,127	$ 1,308	$ 1,672	$ —	$ 777	$ 21	$ 165	$5,070

The following is a summary of nonaccrual loans at December 31, 2018 and March 31, 2018.

$ in thousands	December 31, 2018	March 31, 2018
Gross loans receivable:		
One-to-four family	$ 4,508	$4,561
Multifamily	2,708	964
Commercial real estate	1,233	502
Business	1,467	635
Total nonaccrual loans	$ 9,916	$6,662

Nonaccrual loans generally consist of loans for which the accrual of interest has been discontinued as a result of such loans becoming 90 days or more delinquent as to principal and/or interest payments. Interest income on nonaccrual loans is recorded when received based upon the collectability of the loan.

At December 31, 2018, other non-performing assets totaled $453 thousand which consisted of other real estate owned comprised of four foreclosed residential properties, compared to $552 thousand comprised of eight properties, which included $438 thousand of residential properties at March 31, 2018. At December 31, 2018 and March 31, 2018, the Bank had no non-performing held-for-sale loans.

Although we believe that substantially all risk elements at December 31, 2018 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.

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.

At December 31, 2018, and based on the most recent analysis performed in the current quarter, the risk category by class of loans is as follows:

$ in thousands	Multifamily	Commercial Real Estate	Construction	Business
Credit Risk Profile by Internally Assigned Grade:				
Pass	$ 84,997	$ 123,234	$ —	$ 89,139
Special Mention	—	636	—	5,751
Substandard	2,708	482	—	4,228
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$ 87,705	$ 124,352	$ —	$ 99,118

	One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:		
Performing	$ 108,015	$ 4,411
Non-Performing	3,761	45
Total	$ 111,776	$ 4,456

At March 31, 2018, 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	$ 103,160	$ 140,765	$ —	$ 93,886
Special Mention	—	—	—	5,028
Substandard	1,705	1,539	—	3,289
Doubtful	—	—	—	—
Loss	—	—	—	—
Total	$ 104,865	$ 142,304	$ —	$ 102,203

	One-to-four family	Consumer
Credit Risk Profile Based on Payment Activity:		
Performing	$ 116,588	$ 5,289
Non-Performing	6,504	—
Total	$ 123,092	$ 5,289

The following table presents an aging analysis of the recorded investment of past due financing receivables at December 31, 2018 and March 31, 2018.

December 31, 2018

$ 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	$1,847	$ —	$3,761	$5,608	$106,168	$ 111,776
Multifamily	2,449	—	1,601	4,050	83,655	87,705
Commercial real estate	5,411	—	—	5,411	118,941	124,352
Business	5,448	98	688	6,234	92,884	99,118
Consumer	36	1	—	37	4,419	4,456
Total	$15,191	$ 99	$6,050	$21,340	$406,067	$ 427,407

March 31, 2018

$ 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	$1,819	$—	$4,056	$5,875	$117,217	$ 123,092
Multifamily	—	—	219	219	104,646	104,865
Commercial real estate	1,395	—	—	1,395	140,909	142,304
Business	973	312	322	1,607	100,596	102,203
Consumer	7	5	—	12	5,277	5,289
Total	$4,194	$317	$4,597	$9,108	$468,645	$ 477,753

The following table presents information on impaired loans with the associated allowance amount, if applicable, at December 31, 2018 and March 31, 2018.

	At December 31, 2018			At March 31, 2018		
$ 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	$4,508	$5,663	$ —	$5,439	$6,862	$ —
Multifamily	2,708	2,708	—	964	1,122	—
Commercial real estate	482	482	—	1,539	1,539	—
Business	1,774	1,795	—	611	611	—
With an allowance recorded:						
One-to-four family	935	930	175	1,065	1,065	145
Multifamily	—	—	—	741	741	75
Business	1,800	1,804	18	2,678	2,681	95
Total	$12,207	$13,382	$ 193	$13,037	$14,621	$ 315

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 periods ended December 31, 2018 and 2017.

	For the Three Months Ended December 31,				For the Nine Months Ended December 31,			
	2018		2017		2018		2017	
$ 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	$4,608	$ 25	$5,284	$ 3	$4,973	$ 60	$5,099	$ 15
Multifamily	2,518	11	1,068	9	1,836	29	1,379	25
Commercial real estate	486	8	799	9	1,011	16	1,912	28
Business	1,204	—	1,632	—	1,192	6	2,020	—
With an allowance recorded:								
One-to-four family	938	—	1,381	—	1,000	—	1,388	1
Multifamily	—		—	—	371	—	—	—
Business	2,428	—	2,623	1	2,239	4	2,603	—
Total	$12,182	$ 44	$12,787	$ 22	$12,622	$ 115	$14,401	$ 69

Troubled debt restructured ("TDR") loans consist of modified loans where borrowers have been granted concessions in regards to the terms of their loans due to financial or other difficulties, which rendered them unable to repay their loans under the original contractual terms. Total TDR loans at December 31, 2018 were $5.5 million, $3.2 million of which were non-performing as they were either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months. At March 31, 2018, total TDR loans were $5.7 million, of which $1.9 million were non-performing.

In certain circumstances, the Bank will modify a loan as part of a TDR under GAAP. Situations around these modifications may include extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, reduction in the face amount of the debt or reduction of past accrued interest. Loans modified in TDRs are placed on nonaccrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months.