

CARVER BANCORP, INC.

Mark A. Ricca
Executive Vice President,
Chief Risk Officer & General Counsel

March 6, 2009



Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, N.W., Suite 1064
Washington, D.C. 20020

Re: Carver Bancorp, Inc. – CONFIDENTIAL

Dear Mr. Barofsky:

This letter is in response to your letter of February 6, 2009 requesting certain information on the use of funds (“TARP funds”) received by Carver Bancorp, Inc. (the “Company”) from the Troubled Asset Relief Program Capital Purchase Program (“TARP CPP”). For ease of your review, we are submitting our response in the same order as your request. We request the contents of the letter and all attachments be treated as confidential information and not be released to the public in any manner.

(1) A Narrative Discussing the Use of TARP funds

- (a) On January 16, 2009, the Company received \$18,980,000 from TARP CPP. In the Company’s application to participate in the TARP CPP, the Company stated that it was anticipated the TARP funds would be used for general corporate purposes, including additional capital to grow the lending operations, and to  b(4)
- (b) Upon receipt, the Company placed the TARP funds in general accounts maintained by the Company.
- (c) Prudently deploying TARP funds for loans and a possible acquisition takes time. In the interim, the Company has invested 100 percent of the TARP funds, and has leveraged an additional \$14.2 million, for a total of \$33.2 million, all of which have been invested in Ginnie Mae securities having an average yield of 3.56 percent and an average life of 2.72 years (see attached).
- (d) The Company continues to expect to utilize the TARP funds for loans that meet Carver’s lending criteria and to acquire other financial institutions, should the appropriate opportunities arise. The Company is a Community Development Company (“CDC”) and Carver is a Community Development Financial Institution (“CDFI”). As a CDFI, Carver makes a significant contribution to low and moderate income communities.  b(4)

b(4)

[REDACTED]

[REDACTED] TARP funds help ensure Carver is in position to support and expand this mission.

(1) Specific Plans to Address Executive Compensation Requirements.


The Company and Carver have amended their compensation plans and employment agreements, where appropriate with respect to the requirement of a claw back in the event that an executive is compensated based on a materially inaccurate financial statement or other materially inaccurate performance metric, and to ensure that no participant of a benefit plan may receive an "excess parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (see attached). The Company's Compensation Committee is scheduled to meet on March 30, 2009, to review and act upon the Company's Chief Risk Officer presentation and analysis of the Company's and Bank's compensation plans to ensure that the plans are designed in such a way that senior executive officers are not being compensated to take unreasonable loan or other risks which could threaten the value of the Company. [REDACTED]

b(4)

[REDACTED] The Committee also intends to address how the limitations on executive compensation as well as other TARP CPP requirements will be implemented in line with the guidelines of the US Department of the Treasury, as may be amended.

Please contact the undersigned should you have any questions or comments.

Sincerely,



Mark A. Ricca
Executive Vice President
Chief Risk Officer and General Counsel

FIRST AMENDMENT TO THE
EMPLOYMENT AGREEMENT
ENTERED INTO AS OF JUNE 1, 1999
BETWEEN
CARVER FEDERAL SAVINGS BANK
AND DEBORAH C. WRIGHT

Carver Federal Savings Bank, a federally chartered stock savings bank organized and existing under the laws of the United States of America (the "Bank") has entered into an Employment Agreement as of June 1, 1999 (the "Agreement") with Deborah C. Wright ("Wright"), whereby Wright is employed as President and Chief Executive Officer of the Bank. The Bank and Wright now desire to amend the Agreement by adding a Section 30 to comply with the provisions of the Capital Purchase Program of the Troubled Asset Relief Program ("TARP") of the Emergency Economic Stabilization Act of 2008 to read as follows:

"30 Compliance with the Capital Purchase Program of the Troubled Asset Relief Program (TARP).

Notwithstanding anything in this Agreement to the contrary, during the period that the U.S. Department of Treasury ("Treasury") holds a debt or equity position in Carver Bancorp, Inc. (the "Company") in connection with the Capital Purchase Program, the Company shall be entitled to recover the amount of any bonus or compensation credited or paid to any Participant under this Agreement that is reasonably determined at any time by the Company to have been calculated or based on materially inaccurate financial statements or other materially inaccurate performance metric criteria.

No Participant may receive any payment under this Agreement during the period that the Treasury holds a debt or equity position in the Company pursuant to the Capital Purchase Program if the receipt of such payment alone or when added to any other payment would cause such Participant to receive an "excess parachute payment" within the meaning of Section 280G (and specifically giving effect to subsection (e) thereof) of the Internal Revenue Code of 1986, as amended (the "Section 280G limitation"). The Company shall retain the final authority to reduce or eliminate entirely any payouts pursuant to this Plan to give full effect to the Section 280G limitation set forth in this paragraph."

All other terms and conditions in the Agreement remain in full force and effect.

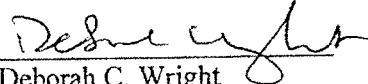
IN WITNESS WHEREOF, the parties hereto have executed this First Amended Employment Agreement as of the 14th day of January, 2009.

Carver Federal Savings Bank

By: 

Mark A. Ricca

Executive Vice President, Chief Risk Officer and General Counsel


Deborah C. Wright

AMENDMENT TO THE EMPLOYMENT AGREEMENT
MADE AS OF JUNE 30, 2008
BETWEEN
CARVER FEDERAL SAVINGS BANK
AND CHARLES F. KOEHLER

Carver Federal Savings Bank, a federally chartered stock savings bank organized and existing under the laws of the United States of America (the "Bank") has entered into an Employment Agreement made as of June 30, 2008 (the "Agreement") with Charles F. Koehler ("Koehler"), whereby Koehler is employed as an Executive Vice President of the Bank for a term commencing on March 1, 2008 and expiring on March 31, 2009. The Bank and Koehler have agreed to amend the Agreement by extending the term of employment to June 12, 2009.

The Bank and Koehler also desire to amend the Agreement further by adding a Section 4(e) to comply with the provisions of the Capital Purchase Program of the Troubled Asset Relief Program ("TARP") of the Emergency Economic Stabilization Act of 2008 to read as follows:

"(e) Compliance with the Capital Purchase Program of the Troubled Asset Relief Program (TARP).

Notwithstanding anything in this Agreement to the contrary, during the period that the U.S. Department of Treasury ("Treasury") holds a debt or equity position in Carver Bancorp, Inc. (the "Company") in connection with the Capital Purchase Program, the Company shall be entitled to recover the amount of any bonus or compensation credited or paid to any Participant under this Agreement that is reasonably determined at any time by the Company to have been calculated or based on materially inaccurate financial statements or other materially inaccurate performance metric criteria.

No Participant may receive any payment under this Agreement during the period that the Treasury holds a debt or equity position in the Company pursuant to the Capital Purchase Program if the receipt of such payment alone or when added to any other payment would cause such Participant to receive an "excess parachute payment" within the meaning of Section 280G (and specifically giving effect to subsection (e) thereof) of the Internal Revenue Code of 1986, as amended (the "Section 280G limitation"). The Company shall retain the final authority to reduce or eliminate entirely any payouts pursuant to this Plan to give full effect to the Section 280G limitation set forth in this paragraph."

All other terms and conditions in the Agreement remain in full force and effect.

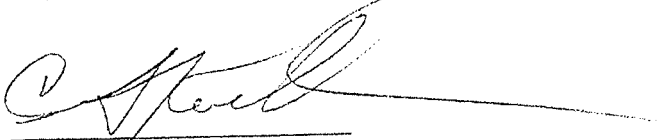
IN WITNESS WHEREOF, the parties hereto have executed this First Amended Employment Agreement as of the 14th day of January, 2009.

Carver Federal Savings Bank

By: 

Mark A. Ricca

Executive Vice President, Chief Risk Officer and General Counsel


Charles F. Koehler

CARVER BANCORP, INC.
Amendments to the
2006 Stock Incentive Plan

Compliance with the terms and conditions of the Troubled Asset Relief Program of the Emergency Economic Stabilization Act of 2008

WHEREAS, the Company has applied for and received \$18,980,000 from the Capital Purchase Program of the Troubled Asset Relief Program (“TARP”); and

WHEREAS, it is necessary to amend the 2006 Stock Incentive Plan to comply with the Company’s participation with TARP;

NOW THEREFORE BE IT

RESOLVED, that Article X, Miscellaneous, of the Carver Bancorp, Inc. 2006 Stock Incentive Plan be, and it hereby is amended to add Section 10.11, Compliance with the Capital Purchase Program of the Troubled Asset Relief Program (“TARP”) of the Emergency Economic Stabilization Act of 2008, to read as follows:

“Section 10.11 Compliance with the Capital Purchase Program of the Troubled Asset Relief Program (TARP)”

- (i) Notwithstanding anything in the Plan to the contrary, during the period that the U.S. Department of the Treasury (“Treasury”) holds a debt or equity position in the Company in connection with the Capital Purchase Program, the Company shall be entitled to recover the amount of any Option, Award or Stock Appreciation Right granted, paid or credited to any Participant under the Plan (and if received by or paid to a Participant shall be voluntarily forfeited and returned to the Company) that is reasonably determined at any time by the Company to have been calculated or based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.
- (ii) No Participant may receive any Option, Award or Stock Appreciation Right under the Plan (or

acceleration of vesting or payment/settlement thereof) during the period that the Treasury holds a debt or equity position in the Company pursuant to the Capital Purchase Program if the receipt of such Option, Award or Stock Appreciation Right under the Plan (or acceleration of vesting or payment/settlement thereof) alone or when added to any other payment or compensation received or to be received by such Participant from the Company would cause such Participant to receive an "excess parachute payment" within the meaning of Section 280G (and specifically giving effect to subsection (e) thereof) of the Code. The Company shall retain the final authority to reduce or eliminate entirely any grants, acceleration of vesting or payment/settlement of any Option, Award or Stock Appreciation Right pursuant to this Plan to give full effect to the Section 280G limitation set forth in this paragraph.";

and be it

FURTHER RESOLVED, that all actions heretofore taken by any officer, employee, agent or director of the Company in connection with and in furtherance of the foregoing, be and they hereby are ratified and approved in all respects.

CARVER BANCORP, INC.
Amendments to the
Performance Compensation Plan

WHEREAS, Carver Bancorp, Inc, (the "Company") has applied for and received \$18,980,000 from the Capital Purchase Program of the Troubled Asset Relief Program ("TARP") of the Emergency Economic Stabilization Act of 2008; and

WHEREAS, it is necessary to amend the Company's Performance Compensation Plan to comply with the Company's participation with TARP;

NOW THEREFORE BE IT

RESOLVED, that the following subsection (j) be added to Section 9, Miscellaneous, of the Carver Bancorp, Inc. Performance Compensation Plan:

(J) *Compliance with the Capital Purchase Program of the Troubled Asset Relief Program ("TARP").*

(i) Notwithstanding the crediting of a Participant's account pursuant to Section 5 or a payment to a Participant pursuant to Section 7, during the period that the U.S. Department of the Treasury ("Treasury") holds a debt or equity position in the Company in connection with the TARP Capital Purchase Program, the Company shall be entitled to recover the amount of any payout credited to any Participant under the Plan (and if received by/distributed to a Participant shall be voluntarily forfeited and returned to the Company) that is reasonably determined at any time by the Company to have been calculated or based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

(ii) No Participant may receive a payment under the Plan during the period that the Treasury holds a debt or equity position in the Company pursuant to the TARP Capital Purchase Program if the receipt of such payment alone or when added to any other payment or compensation received or to

be received by such Participant from the Company would cause such Participant to receive an "excess parachute payment" within the meaning of Section 280G (and specifically giving effect to subsection (e) thereof) of the Code. The Company shall retain the final authority to reduce or eliminate entirely any payouts pursuant to the Plan to give full effect to the Section 280G limitations set forth in this paragraph, and be it

FURTHER RESOLVED, that all actions heretofore taken by any officer, employee, agent or director of the Company in connection with and in furtherance of the foregoing, be and they hereby are ratified and approved in all respects.