FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

OR

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

For the transition period from to

FDIC Certificate No. 57449

MEDALLION BANK

(Exact name of registrant as specified in its charter)

Utah	32-0052486
(State of Incorporation)	(IRS Employer Identification No.)

1100 East 6600 South, Suite 510, Salt Lake City, Utah 84121
(Address of principal executive offices) (Zip Code)

(866) 688-6983
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbols	Name of each exchange on which registered
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F	MBNKP	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark whether the registrant has submitted electronically 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). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

The number of outstanding shares of registrant's common stock, par value $1.00, all of which is held by Medallion Financial Corp., as of May 15, 2023 was 1,000,000.

MEDALLION BANK
FORM 10-Q

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance, as well as the effects of current economic and geopolitical conditions on our business, operating performance, financial condition, liquidity and prospects. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward looking statements, including those more fully described under Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 or the following:

- The concentration of our business in consumer lending, which carries a risk of loss that is different from and typically higher than the risk of loss associated with commercial lending and which has been, and could in the future be, adversely affected by an economic downturn;
- The effects of inflation and economic uncertainty on loan volumes, credit performance and net interest income;
- Outbreaks of disease or similar public health threats, including the COVID-19 pandemic;
- Our dependence on the credit performance of our loans;
- Our reliance on our relationships with dealerships, contractors and financial service providers ("FSPs");
- Our use of brokered deposit sources for our deposit-gathering activities;
- Our dependence on our senior management team for our future success;
- The sufficiency of our allowance for credit losses to cover losses on our loans;

- Competition with other lenders;
- Changes in the taxi and for-hire vehicle industries, which have resulted in increased competition, lower taxi fares and losses in our medallion loan portfolio, as well as decreases in the value of our medallion loan collateral;
- Our access to sources of liquidity and capital to address our liquidity and capital needs;
- A reduction in demand for our products and failure by us to adapt to such reduction;
- Our pursuit and implementation of new business initiatives and strategies, including our Strategic Partnership Program;
- Our determinations with respect to sales of loans we may conduct and the impact of such sales on our retained portfolios;
- Changes in laws, regulations, or policies that apply to us; and
- The incremental costs of operating as a public company.

The foregoing factors should not be considered an exhaustive list and should be read together with the other cautionary statements included in this Form 10-Q. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEDALLION BANK
STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)
(in thousands)

	Three Months Ended March 31,	
	2023	2022
Interest income:		
Investments	$ 1,078	$ 233
Loan interest including fees	51,856	41,112
Total interest income	52,934	41,345
Interest expense	8,600	4,154
Net interest income	44,334	37,191
Provision for loan losses	3,859	2,144
Net interest income after provision for loan losses	40,475	35,047
Other non-interest income	284	156
Write-downs of loan collateral in process of foreclosure and other assets	(252)	(386)
Total non-interest income (loss)	32	(230)
Non-interest expense:		
Loan servicing	2,815	2,725
Salaries and benefits	4,392	3,505
Collection costs	1,458	1,158
Professional fees	667	411
Regulatory fees	682	451
Occupancy and equipment	202	244
Other	1,101	838
Total non-interest expense	11,317	9,332
Income before income taxes	29,190	25,485
Provision for income taxes	7,765	6,701
Net income	21,425	18,784
Other comprehensive income (loss), net of tax:		
Net change in unrealized gains (losses) on investment securities	506	(1,717)
Total comprehensive income	$ 21,931	$ 17,067

The accompanying notes are an integral part of these financial statements.

MEDALLION BANK
BALANCE SHEETS (UNAUDITED)
(dollars in thousands)

	As of March 31, 2023	As of December 31, 2022
Assets		
Cash and cash equivalents [1]	$ 113,257	$ 74,078
Investment securities, available-for-sale	48,529	48,492
Loans	1,887,627	1,822,737
Allowance for loan losses	(65,661)	(61,630)
Loans, net	1,821,966	1,761,107
Loan collateral in process of foreclosure	9,610	10,381
Fixed assets and right-of-use lease assets, net	6,983	6,600
Deferred tax assets	9,788	9,241
Accrued interest receivable and other assets	48,501	40,928
Total assets	$ 2,058,634	$ 1,950,827
Liabilities and shareholders' equity		
Liabilities		
Deposits and other funds borrowed [2]	$ 1,695,300	$ 1,607,110
Accrued interest payable	2,455	2,422
Income tax payable	28,294	23,165
Other liabilities [3]	18,212	10,614
Due to affiliates	618	861
Total liabilities	$ 1,744,879	$ 1,644,172
Commitments and contingencies (Note 10)		
Shareholders' equity		
Series E Preferred stock, $1.00 par value, 26,303 and 26,303 shares authorized, issued, and outstanding as of March 31, 2023 and December 31, 2022, respectively	26,303	26,303
Series F Preferred stock, $1.00 par value, 1,840,000 and 1,840,000 shares authorized, issued, and outstanding as of March 31, 2023 and December 31, 2022, respectively	42,485	42,485
Common stock, $1.00 par value, 7,000,000 and 7,000,000 shares authorized as of March 31, 2023 and December 31, 2022, respectively; 1,000,000 and 1,000,000 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	1,000	1,000
Additional paid in capital	77,500	77,500
Accumulated other comprehensive income, net of tax	(3,676)	(4,183)
Retained earnings	170,143	163,550
Total shareholders' equity	313,755	306,655
Total liabilities and shareholders' equity	$ 2,058,634	$ 1,950,827

(1) Includes $82,609 federal funds sold and interest-bearing deposits in other banks.
(2) Includes $3,765 and $3,812 of deferred financing costs as of March 31, 2023 and December 31, 2022, respectively.
(3) Includes $3,284 and $3,370 of operating lease liabilities as of March 31, 2023 and December 31, 2022, respectively.

The accompanying notes are an integral part of these financial statements.

MEDALLION BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(dollars in thousands)

	Preferred Stock		Common Stock					
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance as of December 31, 2022	1,866,303	$ 68,788	1,000,000	$ 1,000	$ 77,500	$ (4,183)	$ 163,550	$ 306,655
Adoption of ASC 326, net of tax	—	—	—	—	—	—	(8,320)	(8,320)
Balance as of January 1, 2023	1,866,303	68,788	1,000,000	1,000	77,500	(4,183)	155,230	298,335
Net income	—	—	—	—	—	—	21,425	21,425
Dividends declared to MFIN	—	—	—	—	—	—	(5,000)	(5,000)
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(592)	(592)
Dividends declared on preferred stock - Series F	—	—	—	—	—	—	(920)	(920)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	507	—	507
Balance as of March 31, 2023	1,866,303	$ 68,788	1,000,000	$ 1,000	$ 77,500	$ (3,676)	$ 170,143	$ 313,755

	Preferred Stock		Common Stock					
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance as of December 31, 2021	1,866,303	$ 68,788	1,000,000	$ 1,000	$ 77,500	$ 200	$ 114,959	$ 262,447
Net income	—	—	—	—	—	—	18,784	18,784
Dividends declared to MFIN	—	—	—	—	—	—	(5,000)	(5,000)
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(592)	(592)
Dividends declared on preferred stock - Series F	—	—	—	—	—	—	(920)	(920)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	(1,717)	—	(1,717)
Balance as of March 31, 2022	1,866,303	$ 68,788	1,000,000	$ 1,000	$ 77,500	$ (1,517)	$ 127,231	$ 273,002

The accompanying notes are an integral part of these financial statements.

MEDALLION BANK
STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash Flows from Operating Activities		
Net income	$ 21,425	$ 18,784
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,734	2,593
Deferred tax (benefit) provision	2,492	551
Provision for credit losses	3,859	2,144
Write-downs of loan collateral in process of foreclosure and other assets, net	326	443
Unrealized loss on equity securities	(28)	91
Changes in operating assets and liabilities:		
Interest receivable	409	(33)
Other tax assets	5,130	6,139
Other assets	(8,222)	(2,192)
Interest payable	33	356
Other liabilities	7,679	4,362
Net cash provided by operating activities	35,837	33,238
Cash Flows from Investing Activities		
Loan Originations	(230,208)	(209,001)
Proceeds from loan principal payments	118,161	120,047
Proceeds from sale of loans	29,217	5,576
Purchase of investments	—	(7,894)
Proceeds from maturity/sale of investments	659	3,174
Proceeds from sale of repossessed loan collateral	4,660	3,364
Purchase of fixed assets	(535)	(395)
Net cash used in investing activities	(78,046)	(86,127)
Cash Flows from Financing Activities		
Issuance of time deposits and other borrowed funds	240,806	200,528
Repayments of funds borrowed	(152,663)	(119,027)
Change in due to affiliates	(244)	(255)
Dividends paid to MFIN	(5,000)	(5,000)
Dividends paid on preferred stock - Series E	(592)	(592)
Dividends paid on preferred stock - Series F	(920)	(920)
Net cash provided by financing activities	81,387	74,734
Net change in cash and cash equivalents	39,178	21,845
Cash and cash equivalents, beginning of the period	74,078	61,402
Cash and cash equivalents, end of the period	$ 113,256	$ 83,247
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 8,034	$ 3,420
Cash paid for income taxes	143	12
Non-cash investing activities - loans transferred to loan collateral in process of foreclosure	2,204	2,911

The accompanying notes are an integral part of these financial statements.

MEDALLION BANK
NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Description of Business – Medallion Bank (the "Bank") is a Federal Deposit Insurance Corporation ("FDIC") insured, limited-service industrial bank headquartered in Salt Lake City, Utah. The Bank was formed in May 2002 for the purpose of obtaining an industrial bank charter pursuant to the laws of the State of Utah. The Bank is a wholly owned subsidiary of Medallion Financial Corp. ("MFIN"). The Bank originates consumer loans on a national basis for the purchase of recreational vehicles ("RVs"), boats and trailers (which the Bank refers to as the "Recreation Lending" segment and "Recreation" loans) and to finance home improvements such as swimming pool installations and replacement windows and roofs (which the Bank refers to as the "Home Improvement Lending" segment and "Home Improvement" loans). In the second half of 2014, the Bank ceased originating loans to finance the purchase of taxi medallions (which the Bank refers to as "Medallion" loans), though loans continue to be refinanced as they mature. All loans are financed primarily with time certificates of deposits which are originated nationally through a variety of brokered deposit relationships.

Basis of Presentation – The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S.") and prevailing industry practices, which require management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ materially from those estimates.

These financial statements are unaudited and should be read in conjunction with the audited financial statements included in the Bank's Annual Report on Form 10-K for the year ended December 31, 2022. These unaudited financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

Cash and cash equivalents – The Bank considers all highly liquid instruments with an original purchased maturity of three months or less, federal funds sold and interest-bearing deposits in other banks to be cash equivalents. A non-interest-bearing compensating balance of $350,000 is maintained at a correspondent bank. Cash balances are generally held in accounts at large national or regional banking organizations in amounts that frequently exceed the federally insured limits. Cash also includes $1.3 million of interest-bearing funds deposited in other banks, that are mainly callable, with current terms of 3 to 5 years.

Investment securities – FASB ASC Topic 320, "Investments – Debt Securities," requires that all applicable investments in debt securities be classified as trading securities, available-for-sale securities or held-to-maturity securities. Investment securities are purchased from time-to-time in the open market at prices that are greater or lesser than the par value of the investment. The resulting premium or discount is deferred and recognized on a level yield basis as an adjustment to the yield of the related investment. At March 31, 2023 and December 31, 2022, the net premium on investment securities totaled $84,000 and $92,000, respectively, and $7,000 was amortized to interest income for the three months ended March 31, 2023 and $31,000 for the three months ended March 31, 2022, respectively. The Bank had $48.5 million and $48.5 million of available-for-sale securities at fair value as of March 31, 2023 and December 31, 2022, respectively. The Topic further requires that held-to-maturity securities be reported at amortized cost and available-for-sale securities be reported at fair value, with unrealized gains and losses excluded from earnings at the date of the financial statements, and reported in accumulated other comprehensive income (loss) as a separate component of shareholders' equity, net of the effect of income taxes, until they are sold. The Bank had $5.1 million of pretax net unrealized loss and $5.8 million of pretax net unrealized loss on available-for-sale securities as of March 31, 2023 and December 31, 2022, respectively. At the time of sale, any gains or losses, calculated by the specific identification method, will be recognized as a component of operating results and any amounts previously included in shareholders' equity, which were recorded net of the income tax effect, will be reversed. In accordance with ASC 326, we do not maintain an allowance for credit losses for accrued interest receivable.

Equity securities – In the first quarter of 2021, the Bank purchased $2.0 million of equity securities with a readily determinable fair value. Under this classification, all unrealized gains and losses are included within earnings, and the $1.8 million fair value of these securities as of March 31, 2023 is included within other assets on the balance sheet. The Bank did not purchase any equity securities during the three months ended March 31, 2023. See "Note 13. Fair Value of Assets and Liabilities" in these unaudited financial statements.

The table below presents the unrealized portion related to the equity securities held as of March 31, 2023.

	Three months ended March 31,	
(in thousands)	2023	2022
Net gains (losses) recognized during the period on equity securities	$ 28	$ (91)
Less: Net gains (losses) recognized during the period on equity securities sold during the period	—	$ —
Unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date	$ 28	$ (91)

Loans – In these financial statements, unless otherwise indicated, loans are reported at the principal amount outstanding, inclusive of net deferred acquisition costs, which primarily include deferred fees paid to or received from loan originators which are amortized into interest income over the life of the loan. Where otherwise stated, loans are reported as the principal amount outstanding ("gross").

Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment to the yield of the related loans. At March 31, 2023 and December 31, 2022, net loan origination costs were $35.7 million and $34.3 million, respectively. Net amortization expense for the three months ended March 31, 2023 was $1.9 million, and for the three months ended March 31, 2022 was $2.1 million.

Interest income is recognized on an accrual basis. Medallion and other loans are placed on nonaccrual status and all uncollected accrued interest is reversed when there is doubt as to the collectability of interest or principal, or if loans are 90 days or more past due, unless management has determined that they are both well-secured and in the process of collection. Interest income on nonaccrual loans is generally recognized when cash is received, unless a determination has been made to apply all cash receipts to principal. Medallion loans which reach 120 days past due are charged off down to their net realizable value and then generally the remaining balances are moved to repossessed loan collateral on the balance sheet. The consumer loan portfolios have different characteristics than other loans, typified by a larger number of lower dollar loans that have characteristics similar to one another. A loan is considered to be impaired, or nonperforming when, based on current information and events, it is likely the Bank will be unable to collect all amounts due according to the contractual terms of the original loan agreement. Management considers loans that are in bankruptcy status, but have not been charged off, to be impaired. These loans are placed on nonaccrual when they become 90 days past due, or earlier if they enter bankruptcy, and are charged off in their entirety when deemed uncollectible, or when they become 120 days past due, whichever occurs first, at which time appropriate recovery efforts against both the borrower and the underlying collateral are initiated. Prior to the quarter ended March 31, 2023, Recreation loans to borrowers in bankruptcy were not charged off at 120 days. Other loans are charged off when management determines that a loss has occurred. All interest accrued but not collected for loans that are charged off is reversed against interest income. For the Recreation loan portfolio, the process to repossess the collateral is generally started at 60 days past due. If the collateral is not located and the account reaches 120 days delinquent, the account is charged off. If the collateral is repossessed, a loss is recorded by writing the collateral down to its fair value less selling costs, and the collateral is sent to auction. When the collateral is sold, the net auction proceeds are applied to the account and any remaining balance is written off. Proceeds collected on charged-off accounts are recorded as a recovery. Total gross loans 90 days or more past due were $4.7 million, or 0.3%, and $8.8 million, or 0.5%, at March 31, 2023 and December 31, 2022, respectively. Beginning in the first quarter of 2023, the Bank began charging off Recreation loans where borrowers filed for bankruptcy. This change resulted in $2.5 million of loans being charged off in the three months ended March 31, 2023 and reduced the amount of loans 90 days or more past due from December 31, 2022.

At March 31, 2023, $4.8 million, or less than 1%, of Recreation loans, $0.4 million, or substantially less than 1%, of Home Improvement loans, $1.1 million, or 100%, of Medallion loans, and $1.7 million, or 49%, of other loans were in nonaccrual status. At December 31, 2022, $9.2 million, or 1%, of Recreation loans, $0.6 million, or substantially less than 1%, of Home Improvement loans, $10.5 million, or 100%, of Medallion loans and $1.7 million, or 75%, of other loans were in nonaccrual status. The amount of interest income on nonaccrual loans that would have been recognized if the loans had been paying in accordance with their original terms was $118,000 ($34,000 of which has been applied to principal) for the three months ended March 31, 2023, and $128,000 for the three months ended March 31, 2022.

Nonperforming other loans are reserved down to fair value and placed on nonaccrual status. Fair value is determined based upon comparable market prices for substantially similar collateral plus management's estimate of disposal costs, or through the use of a discounted cash flow model. All interest accrued but not collected for loans that are placed in nonaccrual status is reversed against interest income. The interest on these loans is accounted for on a cash basis and applied to principal until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Modified loans – In situations where borrowers are experiencing financial difficulties, the Bank may modify the contractual cash flow of a loan. The Bank strives to identify borrowers in financial difficulty early and work with them to modify their loans to more affordable terms before they are required to be charged off. These modifications may include principal forgiveness, interest rate reduction, other-than-insignificant-payment delays or other term extensions intended to minimize the economic loss to the Bank and to avoid foreclosure or repossession of the collateral. For modifications where the Bank forgives principal, the entire amount of such principal forgiveness is immediately charged off. All modified loans are considered impaired loans.

When the Bank identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate. When collateral is the sole source of repayment for the loan, the Bank may measure impairment based on the fair value of the collateral. If foreclosure is probable, the Bank uses the current fair value of the collateral less selling costs instead of discounted cash flows.

If the Bank determines that the value of an impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Bank recognizes impairment. When the value of an impaired loan is calculated by discounting expected cash flows, interest income is recognized using the loan's effective interest rate over the remaining life of the loan.

Allowance for credit losses – On January 1, 2023, the Bank adopted ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", or ASC 326, which replaced the incurred loss methodology that delayed recognition until it was probable a loss had been incurred with a lifetime expected loss methodology using "reasonable and supportable" expectations about the future that is referred to as the current expected credit loss ("CECL") methodology. The Bank uses historical delinquency and actual loss rates modified by quantitative adjustments based on macroeconomic factors over a twelve-month reasonable and supportable forecast period, plus qualitative factors based on management judgment, in the allowance determination for consumer loans. For all Medallion loans, the Bank maintains specific reserves adjusting the loans down to net collateral value. The allowance is evaluated on a regular basis by management and, in addition to the quantitative components of the CECL methodology, is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions, and excess concentration risks. This evaluation is inherently subjective, as it requires estimates, including those based on changes in economic conditions and forecasted economic conditions, that are susceptible to significant revision as more information becomes available. Credit losses are deducted from the allowance and subsequent recoveries are added back to the allowance.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after December 15, 2022 are presented under ASC 326. The transition to the CECL methodology on January 1,2023 resulted in an increase of $11.6 million to the Bank's allowance for credit losses ("ACL"), and a net-of-tax cumulative-effect decrease of $8.3 million to the beginning balance of retained earnings. The CECL methodology transition effects on the allowance for credit losses is shown in the following table:

	December 31, 2022 Pre-ASC 326 Adoption	Effect of ASC 326 Adoption (Transition Amounts)	January 1, 2023 Post-ASC 326 Adoption
		(in thousands)	
Assets:			
Loans:			
Recreation	$ 41,966	$ 10,038	$ 52,004
Home improvement	11,340	1,518	12,858
Medallion	8,298	—	8,298
Other	26	—	26
Allowance for credit losses	$ 61,630	$ 11,556	$ 73,186

Prior to January 1, 2023, the Bank used historical delinquency and actual loss rates with a one-year look-back period when calculating the allowance for loan losses for consumer loans. For performing Medallion loans, prior to the third quarter of 2020, the Bank used historical delinquency and actual loss rates with a three-year look-back period to calculate the related allowance. However, during the third quarter of 2020, the Bank established specific reserves for all Medallion loans, adjusting them down to net collateral value.

Fixed assets – Fixed assets are stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to expense while significant improvements are capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Capitalized leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining lease term.

Deferred Costs – Deferred financing costs represent costs associated with obtaining Bank deposits, and are amortized on a straight line basis over the lives of the related deposits. Amortization expense was $0.5 million for the three months ended March 31, 2023 and $0.4 million for the three months ended March 31, 2022. The amounts on the Bank's balance sheet were $3.8 million and $3.8 million as of March 31, 2023 and December 31, 2022, respectively.

In addition, the Bank capitalizes certain loan acquisition costs in the process of originating loans. These deferred loan acquisition costs are paid to loan originators and are amortized into interest income over the life of the loan. Amortization expense was $1.9 million and $2.1 million for the three months ended March 31, 2023 and March 31, 2022, respectively. The amounts on the Bank's balance sheet were $35.7 million and $27.8 million as of March 31, 2023 and 2022.

Income taxes – The Bank uses the asset and liability method in providing income taxes on all transactions that have been recognized in the financial statements. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their existing tax bases. The Bank files its tax returns on a consolidated company basis with MFIN.

Other comprehensive income (loss) – The Bank had $0.5 million of net unrealized income due to the change in fair value of available-for-sale securities and interest-bearing funds in other banks for the three months ended March 31, 2023, and $1.7 million of net unrealized loss for the three months ended March 31, 2022.

Restrictions on dividends, loans, and advances – Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to MFIN. The total amount of dividends that may be paid at any date is generally limited to the retained earnings of the Bank. However, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards.

Financial instruments – FASB ASC Topic 825, "Financial Instruments," requires disclosure of fair value information about certain financial instruments, whether assets, liabilities or off-balance-sheet commitments, if practicable. See also "Note 12. Fair Value of Financial Instruments" in these unaudited financial statements.

Fair value of assets and liabilities – The Bank follows FASB ASC Topic 820, "Fair Value Measurements and Disclosures," ("FASB ASC 820"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB ASC 820 defines fair value as an exit price (i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability), and emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, it specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in the valuation technique or its inputs. See also "Note 13. Fair Value of Assets and Liabilities" in these unaudited financial statements.

Stock compensation – Employees and officers of the Bank are eligible to participate in MFIN's equity incentive plan (the "Plan"). The Plan provides for grants of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance awards, and other awards to employees. The Plan is administered by the Compensation Committee of the Board of Directors of MFIN. The option price per share may not be less than the current market value of MFIN's common stock on the date the option is granted. The term and vesting periods of an option may not exceed ten years, and the terms of the restricted stock and other types of equity incentive award grants are determined by the Compensation Committee of the Board of Directors of MFIN. The Bank's stock-based compensation expense was $0.3 million for the three months ended March 31, 2023, and $0.2 million for the three months ended March 31, 2022, which was allocated to the Bank by MFIN and was included in salary and benefits cost and directors fees.

Recently Issued Accounting Standards — In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The final guidance issued by the FASB is intended to help facilitate the market transition from existing reference interest rates to alternative reference interest rates. The Bank does not have exposure to LIBOR-based contracts through its loans or liabilities. As a result, the Bank does not believe this will have an impact on its financial statements.

In August 2021, the FASB issued ASU 2021-06, "Presentation of Financial Statements (Topic 205), Financial Services - Depository and Lending (Topic 942) and Financial Services - Investment Companies (Topic 946) Amendments to SEC Paragraphs

Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures About Acquired and Disposed Businesses and No. 33-10835, Updated of Statistical Disclosures for Bank and Savings and Loan Registrants." The Bank has assessed the impact of the update and determined it does not have a material impact on the accompanying financial statements.

2. Investment Securities

Fixed maturity securities available-for-sale consisted of the following:

	March 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities, principally obligations of US federal agencies	$ 42,773	$ 1	$ (4,353)	$ 38,421
State and municipalities	10,862	46	(800)	10,108
Total	$ 53,635	$ 47	$ (5,153)	$ 48,529

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities, principally obligations of US federal agencies	$ 43,286	$ —	$ (4,933)	$ 38,353
State and municipalities	11,015	13	(889)	10,139
Total	$ 54,301	$ 13	$ (5,822)	$ 48,492

The amortized cost and estimated fair value of investment securities as of March 31, 2023 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2023	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 44	$ 44
Due after one year through five years	9,554	9,209
Due after five years through ten years	9,186	8,193
Due after ten years	34,851	31,083
Total	$ 53,635	$ 48,529

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position consisted of the following:

	March 31, 2023			
	Less than Twelve Months		Twelve Months and Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities, principally obligations of U.S. federal agencies	$ (160)	$ 4,917	$ (4,193)	$ 33,354
State and municipalities	—	44	(800)	8,014
Total	$ (160)	$ 4,961	$ (4,993)	$ 41,368

	December 31, 2022			
	Less than Twelve Months		Twelve Months and Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities, principally obligations of U.S. federal agencies	$ (731)	$ 12,321	$ (4,203)	$ 26,023
State and municipalities	(286)	4,628	(602)	3,489
Total	$ (1,017)	$ 16,949	$ (4,805)	$ 29,512

The Bank had 56 and 57 securities at March 31, 2023 and December 31, 2022, respectively, with unrealized losses that have not been recognized into income. The investments are mortgage-backed securities and similar instruments with conservative characteristics. The decline in value is due to the rapid increase in market interest rates during 2022 and into 2023. As longer term market rates have settled from previous highs, the fair values have partially recovered and the Bank expects this recovery to continue as the securities approach their maturity dates. The Bank regularly reviews investment securities for impairment resulting from credit loss using both qualitative and quantitative criteria, as necessary. Based on the Bank's assessment, no material impairments for credit loss were recognized during the period. The Bank presently does not intend to sell its investment securities that are in an unrealized loss position and believes that it is unlikely that it will be required to sell these securities before they recover their book value.

As of March 31, 2023 and December 31, 2022, the Bank did not hold investments in any single issuer, other than U.S. Government agency residential mortgage-backed securities issued by the Federal National Mortgage Association, with an aggregate book value that exceeded 10% of the Bank's equity. As of March 31, 2023, $13.8 million, measured at fair value, of the Bank's investment securities were pledged as collateral for the Bank's short-term borrowings.

3. Loans and Allowance for Credit Losses

Loans are summarized as follows:

	March 31, 2023	December 31, 2022
	(in thousands)	
Recreation (1)	$ 1,213,380	$ 1,183,512
Home Improvement (1)	669,642	626,398
Medallion (2)	1,104	10,519
Other (2)	3,501	2,308
Total loans	$ 1,887,627	$ 1,822,737
Deferred loan acquisition costs, net	35,659	34,277
Total gross loans	$ 1,851,968	$ 1,788,460

(1) Collectively evaluated for impairment.
(2) Individually evaluated for impairment.

Changes in the allowance for credit losses are summarized as follows:

	Recreation (1)	Home Improvement (1)	Medallion (2)	Other (2)	Total
			(in thousands)		
Balance as of December 31, 2022	$ 41,966	$ 11,340	$ 8,298	$ 26	$ 61,630
CECL transition amount upon ASC 326 adoption	10,038	1,518	—	—	11,556
Provision (benefit) for credit losses	7,751	3,081	(6,963)	(10)	3,859
Loan charge-offs	(12,590)	(1,914)	(3,593)	—	(18,097)
Recoveries	2,771	633	3,299	10	6,713
Balance as of March 31, 2023	$ 49,936	$ 14,658	$ 1,041	$ 26	$ 65,661

(1) Collectively evaluated for impairment.
(2) Individually evaluated for impairment.

	Recreation (1)	Home Improvement (1)	Medallion (2)	Other (2)	Total
			(in thousands)		
Balance as of December 31, 2021	$ 36,607	$ 7,833	$ 8,917	$ 27	$ 53,384
Provision (benefit) for loan losses	1,679	1,204	(736)	(5)	2,142
Loan charge-offs	(5,067)	(1,059)	—	—	(6,126)
Recoveries	2,467	440	643	5	3,555
Balance as of March 31, 2022	$ 35,686	$ 8,418	$ 8,824	$ 27	$ 52,955

(1) Collectively evaluated for impairment.
(2) Individually evaluated for impairment.

For the three months ended March 31, 2023 and 2022, there were no loans acquired with deteriorated credit quality.

See "Note 1, Organization and Summary of Significant Accounting Policies" to the financial statements, which describes the nature of the portfolios, their collection and income recognition processes, and the methodology used to assess the adequacy of the allowance.

The Recreation and Home Improvement loan portfolios are primarily consumer credit-driven, whereby borrowers are assessed a score based on credit history, credit performance, and related factors weighted in a credit scoring model that determines whether a borrower is qualified. Loan losses in these portfolios fluctuate with economic conditions and can range widely over time. Other loans are made infrequently, and on a case-by-case basis, after performing thorough borrower review plus credit and collateral checks. The risk associated with these types of loans is specific to that particular credit, and such risks are monitored and tracked closely. Loan losses by origination year for all loan portfolios are shown in the table below:

	March 31, 2023						
	2023	2022	2021	2020	2019	Prior	Total
				(in thousands)			
Recreation	$ —	$ 3,608	$ 3,070	$ 1,671	$ 1,554	$ 2,687	$ 12,590
Home Improvement	—	904	628	143	131	108	$ 1,914
Medallion	—	—	—	—	—	3,593	$ 3,593
Other	—	—	—	—	—	—	$ —
Total	$ —	$ 4,512	$ 3,698	$ 1,814	$ 1,685	$ 6,388	$ 18,097

Allocations for the allowance for credit losses may be made for specific loans, but the allowance is general in nature and is available to absorb losses from any loan type. The following table provides a summary of the gross loan portfolio by its performance status and by type:

	Performing		Nonperforming		Total	
	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
			(in thousands)			
Recreation	$ 1,169,961	$ 1,136,725	$ 4,653	$ 9,371	$ 1,174,614	$ 1,146,096
Home Improvement	671,648	628,298	441	579	672,089	628,877
Medallion	—	—	1,764	11,179	1,764	11,179
Other	1,770	571	1,731	1,737	3,501	2,308
Total	$ 1,843,379	$ 1,765,594	$ 8,589	$ 22,866	$ 1,851,968	$ 1,788,460

The following tables provide additional information on attributes of the gross nonperforming loan portfolio as of March 31, 2023 and December 31, 2022, all of which had an allowance recorded against the principal balance:

	March 31, 2023				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
With an allowance recorded					
Recreation	$ 4,653	$ 4,653	$ 198	$ 4,649	$ 13
Home Improvement	441	441	10	441	1
Medallion	1,764	1,764	1,041	8,331	—
Other	1,731	1,731	26	1,732	—
Total nonperforming loans with an allowance	$ 8,589	$ 8,589	$ 1,275	$ 15,153	$ 14

	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
With an allowance recorded					
Recreation	$ 9,371	$ 9,371	$ 343	$ 9,158	$ 401
Home Improvement	579	579	10	526	4
Medallion	11,179	11,179	8,298	11,648	—
Other	1,737	1,737	26	1,773	—
Total nonperforming loans with an allowance	$ 22,866	$ 22,866	$ 8,677	$ 23,105	$ 405

The tables below show the aging of all loan types (gross loans):

	March 31, 2023						
	Days Past Due						
	30-59	60-89	90+	Total Past Due	Current	Total	Recorded Investment 90+ Days and Accruing
	(in thousands)						
Recreation	$ 26,576	$ 7,859	$ 4,211	$ 38,646	$ 1,135,968	$ 1,174,614	$ —
Home Improvement	3,073	936	441	4,450	667,639	672,089	—
Medallion	—	385	—	385	1,379	1,764	—
Other	—	—	—	—	3,501	3,501	—
Total	$ 29,649	$ 9,180	$ 4,652	$ 43,481	$ 1,808,487	$ 1,851,968	$ —

	December 31, 2022						
	Days Past Due						
	30-59	60-89	90+	Total Past Due	Current	Total	Recorded Investment 90+ Days and Accruing
	(in thousands)						
Recreation	$ 31,781	$ 11,877	$ 7,365	$ 51,023	$ 1,095,073	$ 1,146,096	$ —
Home Improvement	3,266	1,256	579	5,101	623,776	628,877	—
Medallion	17	393	885	1,295	9,884	11,179	—
Other	—	—	—	—	2,308	2,308	—
Total	$ 35,064	$ 13,526	$ 8,829	$ 57,419	$ 1,731,041	$ 1,788,460	$ —

Under ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," concurrent with the elimination of TDR disclosures, the Bank must disclose loans to borrowers experiencing financial difficulty that were modified during the reporting period. The Bank did not have any such loan modifications on January 1, 2023 or during the three months ended March 31, 2023.

The following table shows the gross TDRs which the Bank entered into during the three months ended March 31, 2022:

	Three months ended March 31, 2022		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
	(dollars in thousands)		
Recreation loans	10	$ 129	$ 129
Medallion loans	2	$ 252	$ 252

A total of 24 Recreation loans modified as TDRs in the twelve months preceding the period ended March 31, 2022, having a gross investment value of $280,000 and an allowance for loan losses of $10,000, were in default as of March 31, 2022. No Medallion loans modified as TDRs in the twelve months preceding the period ended March 31, 2022, were in default during the three months ended March 31, 2022.

4. Fixed Assets

Fixed assets and their related useful lives were as follows:

	Useful lives	As of March 31, 2023	As of December 31, 2022
		(in thousands)	
Computer software	3 years	$ 3,482	$ 3,015
Equipment	3-5 years	331	284
Furniture and fixtures	5-10 years	372	372
Leasehold improvements	3-5 years	148	129
		4,333	3,800
Less accumulated depreciation and amortization		(630)	(560)
Net fixed assets		$ 3,703	$ 3,240

Depreciation expense was $70,000, and $65,000 for the three months ended March 31, 2023 and 2022, respectively.

5. Deposits and Other Funds Borrowed

Deposits and other funds borrowed consisted of the following:

	As of March 31, 2023	As of December 31, 2022
	(in thousands)	
Brokered certificates of time deposits(1)	$ 1,686,515	$ 1,597,278
Listing service deposits	10,550	$ 12,394
Strategic partner reserve deposits	2,000	$ 1,250
Total	$ 1,699,065	$ 1,610,922

(1) Excludes $3,765 and $3,812 of deferred financing costs as of March 31, 2023 and December 31, 2022, respectively.

The scheduled maturities of brokered certificates of time deposit and listing service deposits were as follows:

	For the twelve months ending March 31, 2023[1]
	(in thousands)
2024	$ 564,685
2025	496,933
2026	365,666
2027	159,901
2028	109,880
Total	$ 1,697,065

(1) Excludes $3,765 of deferred financing costs and $2,000 of strategic partner reserve deposits.

Most deposits are raised through the use of investment brokerage firms who package deposits qualifying for FDIC insurance into pools that are sold to the Bank. The rates paid on the deposits are highly competitive with market rates paid by other financial institutions. Additionally, a brokerage fee is paid, depending on the maturity of the deposits, which averages less than 0.15% and which is capitalized and amortized to interest expense over the life of the respective pool. The total amount capitalized as of March 31, 2023 and December 31, 2022 was $3.8 million and $3.8 million, respectively, of which $0.5 million and $0.4 million was amortized to interest expense for the three months ended March 31, 2023 and 2022, respectively. Interest on the deposits is accrued daily and paid monthly, quarterly, semiannually or at maturity. The weighted average interest rate of deposits outstanding as of March 31, 2023 and December 31, 2022 was 2.47% and 1.91%. The Bank also originates time deposits through internet listing services. These deposits are from other financial institutions. As of March 31, 2023, the Bank had $10.6 million in listing services deposits. All time deposits are in denominations of $250,000 or less and were either originated through certificate of deposit broker relationships or listing services.

The following table presents additional maturity information for time deposits:

	As of March 31, 2023	As of December 31, 2022
	(in thousands)	
Three months or less	$ 147,179	$ 152,517
Over three months through six months	138,645	117,179
Over six months through one year	278,861	238,522
Over one year	1,132,380	1,101,454
Total[1][2]	$ 1,697,065	$ 1,609,672

(1) Excludes $3,765 and $3,812 of deferred financing costs as of March 31, 2023 and December 31, 2022, respectively.

(2) Excludes $2,000 and $1,250 of strategic partner reserve deposit as of March 31, 2023 and December 31, 2022, respectively.

As of March 31, 2023 and December 31, 2022, the Bank had unsecured and undrawn Federal Funds lines with correspondent banks of $75 million and $75 million, respectively. In addition, the Bank established a discount window line of credit at the Federal Reserve during the quarter ended March 31, 2023, and pledged $13.8 million in investment securities to collateralize that line. With a current advance rate of 100% of fair value and given a minor difference in valuation method, the Bank had $13.6 million in secured borrowing capacity with the Federal Reserve at quarter end.

6. Income Taxes

The components of the Bank's tax provision for the three months ended March 31 were as follows:

	Three Months Ended March 31, 2023	2022
	(dollars in thousands)	
Current		
Federal	$ 3,882	$ 4,574
State	1,391	1,639
Deferred		
Federal	1,834	350
State	658	138
State income tax rate change	—	—
Net provision for income taxes	$ 7,765	$ 6,701

The following table presents a reconciliation of statutory federal income tax provision to actual income tax provision reported for the three months ended March 31:

	Three Months Ended March 31, 2023	2022
	(dollars in thousands)	
Statutory Federal income tax provision at 21%	$ 6,130	$ 5,352
State and local income taxes, net of federal income tax provision	1,614	1,409
Change in effective state income tax rate	—	—
Non-deductible expenses	16	—
Other	5	(60)
Total income tax provision	$ 7,765	$ 6,701

The following table sets forth the significant components of the Bank's deferred and other tax assets and liabilities as of March 31, 2023 and December 31, 2022:

	As of March 31, 2023	As of December 31, 2022
	(dollars in thousands)	
Provision for loan losses	$ 17,931	$ 16,848
Deferred loan acquisition costs	(9,635)	(9,269)
Unrealized gains on investments	1,430	1,627
Other	62	35
Net deferred tax assets	$ 9,788	$ 9,241

Deferred tax assets and liabilities relate to temporary differences between the financial reporting and income tax bases of the Bank's assets and liabilities, as well as the impact of tax loss carryforwards or carrybacks, and are measured using the enacted income tax laws and rates that will be in effect when such differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible pursuant to ASC Topic 740, "Income Taxes." Management considers the reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management's evaluation of the realizability of deferred tax assets must consider both positive and negative evidence.

The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. Based on these considerations, no valuation allowance was deemed necessary as of March 31, 2023 and December 31, 2022.

The Bank's U.S. federal and certain state operations are included in various MFIN consolidated tax returns, and, in such cases, MFIN makes payments to tax authorities on the Bank's behalf. The Bank and MFIN maintain a tax sharing agreement for any operations included in an MFIN consolidated tax return, pursuant to which MFIN charges the Bank for any taxes owed and reimburses the Bank for current tax benefits generated. Such charges or reimbursements are based upon the Bank's separate income tax liability calculated as if the Bank had filed a separate federal or state tax return, as the case may be.

7. Other Transactions with Affiliates

The Bank's aggregated Medallion and other loans were $2.8 million and $12.2 million as of March 31, 2023 and December 31, 2022, respectively. These loans were sourced and serviced by the Bank's and MFIN's affiliates. The Bank paid $0.6 million and $0.7 million of loan and medallion-related asset servicing and collection fees to MFIN affiliates for the three months ended March 31, 2023 and 2022, respectively.

As of March 31, 2023 and December 31, 2022, the Bank was owed $13,000 and $13,000, respectively, from and to affiliates for Medallion loan payments. As of March 31, 2023 and December 31, 2022, the Bank owed $518,000 and $762,000, respectively, to affiliates for monthly servicing fees on loans, charges for corporate overhead, and legal expenses due to the affiliates, partially offset by payments due to the Bank from collection of loan payments by affiliates. As of March 31, 2023 and December 31, 2022, the Bank held a $100,000 collateral deposit due to MFIN. The Bank compensated MFIN for corporate services in the amount of $121,000 and $88,000 for the three months ended March 31, 2023 and 2022.

8. 401(k) Plan

The Bank participates in the 401(k) Plan offered by MFIN. Effective June 1, 2022, the 401(k) Plan covers all full- and part-time employees of the Bank who have attained the age of 18 and have a minimum of thirty (30) days of service. Under the 401(k) Plan, an employee may elect to defer not less than 1% and not more than the applicable limits set forth in the Internal Revenue Code. Employee contributions are invested in various mutual funds according to the directions of the employee. Once eligible full-time employees have completed a minimum of 90 days of service and part-time employees have worked at least 1,000 hours, MFIN matches employee contributions to the 401(k) Plan in an amount per employee equal to fifty percent of the first 8% of the employee's annual contributions, subject to legal limits. Prior to June 1, 2022, the 401(k) Plan covered full- and part-time employees of the Bank aged 21 and older that had completed a minimum of thirty (30) days of service, with MFIN matching one-third of the first 6% of the contributions of eligible employees that had completed at least one (1) year of service (in the case of full-time employees) or 1,000 hours (in the case of part-time employees). The Bank provided $77,000 and $21,000 in employer matching for the three months ended March 31, 2023 and 2022.

9. Segment Reporting

The Bank has three business segments, which reflect the main types of lending and other operations at the Bank, which are Recreation Lending, Home Improvement Lending, and Other (as defined below). The segments are determined based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of the segments are intended to reflect each segment as if it were essentially a stand-alone business.

The Recreation Lending segment is a consumer finance business that works with third-party dealers and financial service providers ("FSPs") for the purpose of financing RVs, boats and other consumer recreational equipment. The Home Improvement Lending segment is a consumer finance business that works with contractors and FSPs to finance residential home improvements concentrated in swimming pools, roofing, and windows. The "Other" segment includes Medallion loans, activities related to the Bank's Strategic Partnership program, other loans that are not Recreation, Home Improvement or Medallion loans, and cash, investments and net non-interest earning assets.

Where segments use services provided by corporate support units or another segment, the costs of those services are allocated to the respective segments. The expense is generally allocated based on the actual cost and use of services provided.

The following tables present segment results for the periods indicated.

Three months ended March 31, 2023

(Dollars in thousands)	Recreation	Home Improvement	Other	Total
Total interest income	$ 37,899	$ 13,649	$ 1,386	$ 52,934
Total interest expense	(5,061)	(2,815)	(724)	(8,600)
Net interest income	32,838	10,834	662	44,334
Provision (benefit) for credit losses	7,751	3,081	(6,973)	3,859
Other expense	(6,728)	(3,401)	(1,156)	(11,285)
Net income before taxes	18,359	4,352	6,479	29,190
Income tax provision	4,881	1,158	1,726	7,765
Net income after tax	$ 13,478	$ 3,194	$ 4,753	$ 21,425
Balance Sheet Data				
Total loans	$ 1,213,380	$ 669,642	$ 4,605	$ 1,887,627
Total assets	1,187,209	667,893	203,532	2,058,634
Total deposits and other funds borrowed(1)	1,005,484	567,378	126,203	1,699,065
Selected Financial Ratios				
Return on average assets	5.22 %	2.57 %	30.58 %	4.36 %
Return on average equity	33.99	16.70	199.07	28.38
Interest yield	12.87	8.54	11.68	11.35
Net interest margin	11.15	6.78	25.01	9.05
Reserve coverage	4.12	2.19	23.17	3.48
Delinquency status(2)	3.19	0.66	8.36	2.30
Charge-off ratio	3.33	0.80	10.73	2.49

(1) Excludes $3,765 of deferred financing costs.
(2) 30 days or more past due.

Three months ended March 31, 2022

(Dollars in thousands)	Recreation	Home Improvement	Other	Total
Total interest income	$ 31,196	$ 9,790	$ 359	$ 41,345
Total Interest expense	(2,849)	(987)	(318)	(4,154)
Net interest income	28,347	8,803	41	37,191
Provision (benefit) for loan losses	1,680	1,205	(741)	2,144
Other expense	(5,723)	(2,379)	(1,460)	(9,562)
Net income (loss) before taxes	20,944	5,219	(678)	25,485
Income tax (provision) benefit	5,505	1,373	(177)	6,701
Net income (loss) after tax	$ 15,439	$ 3,846	$ (501)	$ 18,784
Balance Sheet Data				
Total loans net	$1,007,067	$ 473,534	$ 13,161	$ 1,493,762
Total assets	991,366	472,901	177,252	1,641,519
Total deposits and other funds borrowed	838,662	384,485	111,642	1,334,789
Selected Financial Ratios				
Return on average assets	6.48 %	3.43 %	(1.29)%	4.82 %
Return on average equity	37.91	20.10	(7.55)	28.55
Interest yield	12.88	8.74	3.87	11.50
Net interest margin	11.71	7.86	1.26	9.66
Reserve coverage	3.54	1.78	67.25	3.55
Delinquency status	2.89	0.50	13.53	2.23
Charge-off ratio	1.07	0.55	(19.88)	0.72

(1) Excludes 3,427 of deferred financing costs.
(2) 30 days or more past due.

10. Commitments and Contingencies

Loans – As of March 31, 2023 and December 31, 2022, the Bank had no commitments to extend credit to customers for unfunded amounts.

Leases – The Bank leases office space under one non-cancelable operating lease that expires in November 2030. Until August 2022, the Bank also leased office space under a second non-cancelable operating lease that was terminated prior to expiration under an arrangement with the lessor. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Bank recognizes lease expense for these leases on a straight-line basis over the lease term. The Bank accounts for lease components including rent, real estate taxes and insurance costs separately from non-lease components like common-area maintenance fees. Leases include options to renew, with renewal terms that can extend the lease term for one or more years. The exercise of lease renewal options is at the Bank's sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Operating lease right-of-use assets and lease liabilities are as follows:

	As of March 31, 2023	As of December 31, 2022
	(in thousands)	
Assets		
Operating lease right-of-use assets	$ 3,280	$ 3,360
Liabilities		
Operating lease liabilities	$ 3,284	$ 3,370

Operating lease costs were $132,000 and $179,000 for the three months ended March 31, 2023 and 2022.

Supplemental cash flow information related to operating leases for the three months ended March 31, 2023 was payments of $142,000 against amounts included in the measurement of lease liabilities.

The weighted-average remaining lease term for operating leases was 7.6 years. The weighted-average discount rate used for operating leases was 6.75% as of March 31, 2023.

There were no material operating leases that the Bank entered into and were yet to commence as of March 31, 2023.

	As of March 31, 2023
	(in thousands)
Remainder of 2023	$ 430
2024	589
2025	607
2026	625
2027	607
Thereafter	1,290
Total lease payments	4,148
Less imputed interest	(864)
Present value of lease liabilities	$ 3,284

11. Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the FDIC and the Utah Department of Financial Institutions. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the bank regulators about components, risk weightings and other factors.

FDIC-insured banks, including the Bank, are subject to various legal limitations on the extent to which banks may finance or otherwise supply funds to certain of their affiliates. In particular, the Bank is subject to certain restrictions on any extensions of credit to, or other covered transactions with, MFIN or its affiliates such as certain purchases of assets.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as defined in the regulations (set forth in the table below). Additionally, as conditions of granting the Bank's application for federal deposit insurance, the FDIC ordered that the Tier 1 leverage capital to total assets ratio, as defined, be not less than 15%, and that an adequate allowance for credit losses be maintained. As of March 31, 2023 and December 31, 2022, the Bank's Tier 1 leverage capital ratio was 16.4% and 16.2%, respectively. The Bank's actual capital amounts and ratios and the regulatory minimum ratios are presented in the following table:

	March 31, 2023		December 31, 2022		Minimum Regulatory Requirements as of March 31, 2023	Well-Capitalized Requirements
	Amount	Ratio	Amount	Ratio		
	(dollars in thousands)					
Tier 1 leverage capital	$ 323,671	16.4%	$ 310,837	16.2%	4.0%	5.0%
CET1 risk-based capital	$ 254,883	13.1%	$ 242,050	12.8%	7.0%	6.5%
Tier 1 risk-based capital	$ 323,671	16.6%	$ 310,837	16.5%	8.5%	8.0%
Total risk-based capital	$ 348,536	17.9%	$ 334,913	17.7%	10.5%	10.0%

In the table above, the minimum risk-based ratios as of March 31, 2023 and December 31, 2022 reflect the capital conservation buffer of 2.5%. As of both March 31, 2023 and December 31, 2022, the minimum regulatory requirements, inclusive of the capital conservation buffer, were the binding requirements for risk-based requirements, and the "well capitalized" requirements were the binding requirements for Tier 1 leverage capital. With the adoption of CECL on January 1, 2023, the Bank elected to phase in the regulatory capital effects of the transition amount, which reduced the capital impact by $6.2 million and increased the Tier 1 leverage capital ratio by 27 basis points.

12. Fair Value of Financial Instruments

FASB ASC Topic 825, "Financial Instruments," requires disclosure of fair value information about certain financial instruments, whether assets, liabilities or off-balance-sheet commitments, if practicable. The following methods and assumptions were used to estimate the fair value of each class of financial instrument. Fair value estimates that were derived from broker quotes cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument:

- **(a) Loans –** Current fair value most closely approximates book value.
- **(b) Investment securities** –The Bank's investments are recorded at the estimated fair value of such investments.
- **(c) Equity securities** – The Bank's equity securities are recorded at cost less any impairment plus or minus observable price changes.
- **(d) Cash and cash equivalents** – Book value equals market value.
- **(e) Accrued interest receivable** – Book value equals market value.
- **(f) Floating rate borrowings** – Due to the short-term nature of these instruments, the carrying amount approximates fair value.
- **(g) Fixed rate borrowings –** Due to the short-term nature of these instruments, the carrying amount approximates fair value.
- **(h) Accrued interest payable** – Due to the short-term nature of these instruments, the carrying amount approximates fair value.
- **(i) Commitments to extend credit** – The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also includes a consideration of the difference between the current levels of interest rates and the committed rates. As of March 31, 2023 and December 31, 2022, the estimated fair value of these off-balance sheet instruments was not material.

The Bank's financial instruments consisted of the following:

	March 31, 2023		December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial Assets				
Loans, net	$ 1,821,966	$ 1,821,966	$ 1,761,107	$ 1,761,107
Investment securities	48,529	48,529	$ 48,492	$ 48,492
Equity securities	1,752	1,752	$ 1,724	$ 1,724
Cash and cash equivalents(1)	113,257	113,257	$ 74,078	$ 74,078
Accrued interest receivable	12,133	12,133	$ 12,541	$ 12,541
Financial Liabilities				
Deposits and other funds borrowed(2)	1,697,065	1,697,065	$ 1,609,672	$ 1,609,672
Accrued interest payable	2,455	2,455	$ 2,422	$ 2,422

(1) Includes federal funds sold and interest-bearing deposits in other banks.
(2) Excludes $3,765 and $3,812 of deferred financing costs for March 31, 2023 and December 31, 2022, respectively.

13. Fair Value of Assets and Liabilities

The Bank follows the provisions of FASB ASC 820, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements.

In accordance with FASB ASC 820, the Bank has categorized its assets and liabilities measured at fair value, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

As required by FASB ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a level 3 fair value measurement may include inputs that are observable (level 1 and 2) and unobservable (level 3). Therefore, gains and losses for such assets and liabilities categorized within the level 3 table below may include changes in fair value that are attributable to both observable inputs (level 1 and 2) and unobservable inputs (level 3).

Assets and liabilities measured at fair value and recorded on the balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Bank has the ability to access (examples include active exchange-traded equity securities, exchange-traded derivatives, most U.S. Government and agency securities, and certain other sovereign government obligations).

Level 2. Assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

A) Quoted prices for similar assets or liabilities in active markets (for example, restricted stock);

B) Quoted prices for identical or similar assets or liabilities in non-active markets (for example, corporate and municipal bonds, which trade infrequently);

C) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and

D) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage-related assets, including loans, securities, and derivatives).

Level 3. Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the assets or liabilities (examples include certain private equity investments, and certain residential and commercial mortgage-related assets (including loans, securities, and derivatives)).

Changes in the observability of valuation inputs may result in a reclassification for certain assets or liabilities.

Reclassifications impacting level 3 of the fair value hierarchy are reported as transfers in/out of the level 3 category.

The following tables present the Bank's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

	As of March 31, 2023			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Interest-bearing deposits in other banks [1]	$ —	$ 1,250	$ —	$ 1,250
Available-for-sale investment securities [1]	—	48,529	—	48,529
Equity securities	1,752	—	—	1,752
Total	$ 1,752	$ 49,779	$ —	$ 51,531

(1) Total unrealized gain of $0.5 million net of tax was included in other comprehensive income (loss) for the three months ended March 31, 2023 related to these assets.

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Interest-bearing deposits in other banks [1]	$ —	1,250	$ —	$ 1,250
Available-for-sale investment securities [1]	—	48,492	—	48,492
Equity securities	1,724	—	—	1,724
Total	$ 1,724	49,742	$ —	$ 51,466

(1) Total unrealized loss of $4.4 million net of tax was included in other comprehensive income (loss) for the year ended December 31, 2022 related to these assets.

The following tables present the Bank's fair value hierarchy for those assets and liabilities measured at fair value on a non-recurring basis as of March 31, 2023 and December 31, 2022:

	As of March 31, 2023			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets [1]				
Impaired loans (gross)	$ —	$ —	$ 7,314	$ 7,314
Loan collateral in process of foreclosure	—	—	9,610	9,610
Other assets	—	—	7,249	7,249
Total	$ —	$ —	$ 24,173	$ 24,173

(1) Total unrealized losses of $1.3 million for impaired loans and $0 for repossessed loan collateral related to these assets were included in income for the three months ended March 31, 2023.

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets [1]				
Impaired loans (gross)	$ —	$ —	$ 14,134	$ 14,134
Loan collateral in process of foreclosure	—	—	$ 10,381	$ 10,381
Other assets	—	—	$ 7,511	$ 7,511
Total	$ —	$ —	$ 32,026	$ 32,026

(1) Total unrealized losses of $8.7 million for impaired loans and $0 for repossessed loan collateral related to these assets were included in income for the year ended December 31, 2022.

Significant Unobservable Inputs

ASC Topic 820 requires disclosure of quantitative information about the significant unobservable inputs used in the valuation of assets and liabilities classified as level 3 within the fair value hierarchy. The table below is not intended to be all-inclusive, but rather to provide information on significant unobservable inputs and valuation techniques used by the Bank.

The valuation techniques and significant unobservable inputs used in non-recurring level 3 fair value measurements of assets and liabilities as of March 31, 2023 are as follows:

(Dollars in thousands)	Fair Value at March 31, 2023	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Impaired loans (gross)	$ 7,314	Market approach	Historical and actual loss experience	0.0% - 7.38%
			Transfer prices[1]	$0.0 - 79.5
			Collateral value	N/A
Loan collateral in process of foreclosure	9,610	Market approach	Transfer prices[1]	$0.0 - 79.5
			Collateral value[2]	$0 - 52.2
Other Assets	7,249	Market approach	Transfer prices[1]	$0.0 - 79.5

(Dollars in thousands)	Fair Value at December 31, 2022	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Impaired loans (gross)	$ 14,134	Market approach	Historical and actual loss experience	0.0% - 6.55%
				60% of balance
			Transfer prices[1]	$0.0 - 79.5
			Collateral value	N/A
Loan collateral in process of foreclosure	10,381	Market approach	Transfer prices[1]	$0.0 - 79.5
			Collateral value[2]	$2.5 - 54.1
Other Assets	7,511	Market approach	Transfer prices[1]	$0.0 - 79.5

(1) Represents amount net of liquidation costs.
(2) Relates to the Recreation Lending segment.

14. Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F

On December 17, 2019, the Bank closed an initial public offering of 1,840,000 shares of its Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, ("Series F") with a $46.0 million aggregate liquidation amount, yielding net proceeds of $42.5 million, which were recorded in the Bank's shareholders' equity. Dividends are payable quarterly from the date of issuance to, but excluding, April 1, 2025, at a rate of 8% per annum, and from and including April 1, 2025, at a floating rate equal to a benchmark rate (which is based on the Secured Overnight Financing Rate, or SOFR, and is expected to be three-month Term SOFR) plus a spread of 6.46% per annum.

On January 26, 2023, the Bank's Board of Directors (the "Board") declared a quarterly cash dividend of $0.50 per share on the Series F, to shareholders of record at the close of business on March 15, 2023, which was paid on April 3, 2023. On April 27, 2023, the Board declared a quarterly cash dividend of $0.50 per share on the Series F. The dividend is payable on July 3, 2023 to shareholders of record at the close of business on June 15, 2023.

15. Troubled Assets Relief Program (TARP) and Small Business Lending Fund Program (SBLF)

On February 27, 2009 and December 22, 2009, the Bank issued, and the U.S. Treasury purchased under the TARP Capital Purchase Program (the "CPP"), the Bank's fixed rate non-cumulative Perpetual Preferred Stock, Series A, B, C, and D for an aggregate purchase price of $21.5 million in cash. On July 21, 2011, the Bank issued and the U.S. Treasury purchased 26,303 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series E ("Series E"), for an aggregate purchase price of $26.3 million under the SBLF, with a liquidation amount of $1,000 per share. The SBLF is a voluntary program intended to encourage small business lending by providing capital to qualified smaller banks at favorable rates. In connection with the issuance of the Series E, the Bank exited the

CPP by redeeming the Series A, B, C, and D shares; and received approximately $4.0 million, net of dividends due, on the repaid securities. The Bank previously paid a dividend rate of 1% on the Series E, which increased to 9% in the first quarter of 2016. On March 30, 2023, the Board declared and the Bank paid a quarterly cash dividend of $22.50 per share of Series E.

16. Subsequent Events

The Bank has evaluated subsequent events from the balance sheet date through the date at which the financial statements were available to be issued and determined that there was a single item to disclose.

On April 12, 2023, the Bank was notified by one of its correspondent banks that its $40.0 million unsecured line of credit, which was included in the total disclosed in "Note 5: Deposits and Other Funds Borrowed", had been terminated. The correspondent bank took this action with all of its correspondent relationships nationally and did not single out the Bank. In response, the Bank transferred $24.1 million in investment securities from the correspondent bank and other correspondent banks to the Federal Reserve for safekeeping, pledging them as collateral for discount window access. The current advance rate on the pledged securities is 100% of fair value which, due to differences in valuation method and timing, resulted in total short-term borrowing capacity with the Federal Reserve of $37.5 million. Compared to the quarter-end short term borrowing lines of $75.0 million unsecured and $13.6 million secured, which totaled $88.6 million, at April 30, 2023 the Bank had short-term borrowing lines of $35.0 million unsecured and $37.5 million secured for a total of $72.5 million. Given the relative stability of our brokered deposits, management believes this to be sufficient for the Bank's needs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Objective

The following is a discussion of our financial condition as of March 2023, as compared to December 2022, and our results of operations for the three months ended March 2023 and 2022. This section is intended to provide management's perspective of its results of operations. This discussion and analysis should be read in conjunction with our unaudited financial statements and related notes thereto presented elsewhere, as well as our audited financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022. In addition to historical information, this discussion includes certain forward-looking statements regarding events and trends that may affect our future results. Such statements are subject to risks and uncertainties that could cause our actual results to differ materially. See "Cautionary Note Regarding Forward-Looking Statements." For a more complete discussion of the factors that could affect our future results, see Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022.

General

We are a Utah-chartered, Federal Deposit Insurance Corporation ("FDIC") insured industrial bank headquartered in Salt Lake City, Utah. We specialize in providing consumer loans through dealers and FSPs for the purchase of recreational vehicles ("RVs"), boats, and trailers, and through contractors and FSPs for the purchase of home improvements, such as swimming pools and replacement windows and roofs, along with offering loan origination services to fintech partners. Formed in 2002 and opened in December 2003, we are a wholly owned subsidiary of Medallion Financial Corp. ("MFIN"), a finance company. As a consolidated subsidiary of MFIN, the Bank's assets, liabilities, results of operations and cash flows are reflected in MFIN's consolidated financial statements. Financial information relating to the Bank in the Bank's disclosures, including this Form 10-Q, may not be comparable to financial information about the Bank in MFIN's Securities and Exchange Commission ("SEC") filings because of intercompany assets, liabilities, revenues and expenses between the Bank, on the one hand, and MFIN and MFIN's other consolidated subsidiaries, on the other hand, that are eliminated in consolidation, as well as methodological differences in segment disclosures. The methodological differences in segment disclosures reflect differences in the assets, liabilities, revenues, expenses, and activities of the Bank, on a standalone basis, and MFIN, on a consolidated basis.

In 2004, our first full year of operation, we acquired a consumer loan portfolio and hired the related employees from a company exiting the banking business. Following this acquisition, we began originating consumer loans used to purchase RVs, boats and trailers (which we refer to as our "Recreation Lending" segment and our "Recreation" loans). Over the next decade, we expanded this niche RV/marine finance business, which is now our primary business segment and our largest loan portfolio. In 2012, we diversified the Bank by adding a quality-oriented, home improvement consumer finance business (which we refer to as our "Home Improvement Lending" segment and our "Home Improvement" loans). The team of employees we hired in connection with this expansion brought substantial prime credit underwriting experience into the Bank. Today, our two consumer lending segments constitute the majority of the activity at the Bank.

In the second half of 2014, we ceased originating loans to finance the purchase of taxi medallions (which we refer to as our "Medallion" loans), though we have continued to refinance those loans as they mature and the Bank from time to time has provided financing to purchasers in connection with the disposition of repossessed medallion collateral. Our portfolio of Medallion loans has steadily declined in size since we ceased new originations and, as of March 2023, represented less than 1 percent of our loan portfolio.

As of March 2023, we had total assets of $2.1 billion, including a loan portfolio, net of the allowance for credit losses, of $1.8 billion, and equity capital of $313.8 million. For the three months ended March 2023, we had pre-tax income of $29.2 million and after-tax income of $21.4 million. We seek to maintain capital ratios in excess of those required for well-capitalized status under the FDIC's regulatory framework, including a 15% Tier 1 leverage ratio (Tier 1 capital to average assets), which is well in excess of the 5% threshold for well-capitalized status.

As used throughout this Form 10-Q, all references to "Medallion Bank," the "Bank," "we," "us," and "our" mean Medallion Bank, an industrial bank organized and existing under the laws of the State of Utah, unless the context otherwise requires. References to this "Form 10-Q" are to our Quarterly Report on Form 10-Q for the three months ended March 31, 2023. All references to March 2023 and 2022 refer to our three months ended, or the dates, as the context requires, March 31, 2023 and March 31, 2022, respectively. All references to December 2022 refer to our year ended, or the date, as the context requires, December 31, 2022.

Any discrepancies included in this Form 10-Q between totals and the sums of the percentages and dollar amounts presented are due to rounding.

Unless otherwise specified, loan portfolios and loan balances are presented inclusive of net deferred loan acquisition costs. References to "gross" loans are to the face amounts of the loans, i.e., loan balances presented exclusive of net deferred loan acquisition costs.

Our Business

Our primary business is consumer lending, substantially all of which is conducted through third-party sellers of consumer goods and services in our Recreation Lending and Home Improvement Lending segments. As of March 2023, our Recreation and Home Improvement loan portfolios together were $1.9 billion, representing 91.5% of our total assets and 99.8% of our loan portfolio, with a weighted average yield (which is equal to gross interest income minus amortization of loan origination costs) of 11.3% for the three months ended March 2023. We work directly with dealerships, contractors and financial service providers ("FSPs") largely via digital tools and Application Programming Interfaces ("APIs") to offer financing for consumers, including those with past credit challenges. Business in the consumer lending segments is moderately seasonal, with the spring and summer quarters (the second and third quarters) being more active both for the purchase of recreation products and home improvements, which correspondingly results in higher origination volumes during those quarters. The degree to which our consumer loan businesses are seasonal also depends upon weather, with heavy winters making the business more seasonal as winters typically result in consumers making fewer purchases of recreation products and home improvements during the fall and winter quarters (the fourth and first quarters, respectively).

We make consumer loans to borrowers in all 50 U.S. states, plus the District of Columbia, and currently work with dealerships in 45 states in connection with our Recreation Lending segment and with contractors in 45 states in connection with our Home Improvement Lending segment. We serve our dealers and contractors primarily using digital tools such as lending websites and mobile applications for phone or tablet, or via APIs designed to facilitate system-to-system credit transactions. Additionally, we have dedicated teams of business development, relationship management and customer service employees that provide dealers and contractors with the support and services they require to meet the needs of their customers.

Recreation Lending. Our Recreation Lending segment has typically been a high-growth business focused on originating Recreation loans at the point of sale via dealers and FSPs. In addition to offering prime credit financing, we specialize in helping recreation product dealerships finance customers with past credit challenges, including bankruptcy, tax liens, collections and other credit issues. All of our Recreation loans are serviced by a third-party loan servicer, and we have used the same loan servicer since the business's inception.

Recreation loans represented $1.2 billion, or 64.3%, of our loan portfolio, as of March 2023. The loans are secured primarily by RVs, boats and trailers with a small proportion of loans secured by other collateral such as collector cars, powersport vehicles and boat motors. The weighted average yield of our Recreation loan portfolio was 12.87% for the three months ended March 2023. During the three months ended March 2023, we originated $101.7 million of Recreation loans, a decrease of $12.7 million from the three months ended March 2022 due primarily to declining consumer demand for RVs and boats.

Recreation Lending operates like a traditional indirect auto finance business, including the use of technology at the point of sale to facilitate the transaction. We maintain non-exclusive relationships with approximately 3,000 dealers and FSPs, not all of which are active at any one time. FSPs are entities that provide finance and insurance ("F&I") services to small dealers that do not have the desire or ability to provide F&I services themselves. The ability of FSPs to aggregate the financing and relationship management for many small dealers, and to engage in transactions in low-cost ways through the use of APIs or digital tools, makes them valuable to the Bank. We receive approximately half of our loan volume from dealers and the other half from FSPs. Management monitors the number of dealers and FSPs and their relative contributions as a means of assessing market share and segment growth. Over time, changes in these metrics will provide investors with information about origination concentration and growth trends in the segment. In the three months ended March 2023 and March 2022, approximately 43% and 50% of Recreation Lending's new loan originations, respectively, were from our top ten dealer and FSP relationships. The percentage of new loan originations by the top ten dealer and FSP relationships is a measure of concentration within the segment's loan originations, which management uses to determine whether to undertake diversification efforts, and which provides investors with information about origination concentration.

Home Improvement Lending. We work directly with contractors and FSPs to offer flexible consumer financing for window, siding and roof replacements, swimming pool installations and other home improvement projects. Our core product is a standard installment loan, which features affordable monthly payments and competitive interest rates for prime credit customers at no cost to the contractor. We also offer a variety of promotional loan options to help contractors close a challenging sale. Promotional loan options include same-as-cash, no interest and deferred payment features, which allow borrowers to reduce the total cost of financing or start repayments when it is most convenient. All credit transactions are submitted to the Bank electronically, with the majority delivered via API or a custom mobile application designed for the contractor's phone or tablet.

Home Improvement loans represented $669.6 million, or 35.5%, of our loan portfolio as of March 2023. The loans are secured by the personal property installed, and the security interest for some of these loans is perfected with a Uniform Commercial

Code ("UCC") fixture filing. The weighted average yield of the Home Improvement loan portfolio was 8.54% for the three months ended March 2023. During the three months ended March 2023, we originated $95.0 million of Home Improvement loans, an increase of $5.2 million from the three months ended March 2022.

Home Improvement Lending operates in a manner similar to Recreation Lending, with a few key differences. We currently maintain a smaller number of non-exclusive relationships; the Bank has relationships with approximately 1,000 contractors and FSPs. Management monitors the number of contractors and FSPs and their relative contributions as a means of assessing market share and segment growth. Over time, changes in these metrics will provide investors with information about origination concentration and growth trends in the segment. Most of our home improvement-financed sales take place in the borrower's home instead of a store, with the contractor presenting the borrower with a bid that includes a financing option. A large proportion of our home improvement-financed sales are facilitated by contractor salespeople with limited financing background rather than by contractor employees that provide F&I services. The result is contractor demand for financing services that facilitate an in-home transaction (e.g., digital tools including mobile applications for phone or tablet, support for E-SIGN compliant electronic signatures, and extended operating hours) and additional resources to help the salesperson throughout the financing process. Approximately 61% and 54% of Home Improvement Lending's new loan originations were from our top ten contractor and FSP relationships in the three months ended March 2023 and March 2022, respectively. The percentage of new loan originations by the top ten contractor and FSP relationships is a measure of concentration within the segment's loan originations, which management uses to determine whether to undertake diversification efforts, and which provides investors with information about origination concentration.

Other. Our remaining operations, which are reported in our "Other" segment in the financial statements contained elsewhere in this report, include our legacy portfolio of Medallion loans and related operations, our Strategic Partnership Program (described further below), and other loans, as well as cash, investments and net non-interest earning assets. Other loans represented $4.6 million, or 0.24%, of the Bank's loan portfolios as of March 2023.

Through our Strategic Partnership Program, we partner with non-banks offering loans and other financial services to their customers. As of March 2023, we have signed agreements with three active Strategic Partnership Program clients. The associated activities are currently limited to originating loans or other receivables facilitated by our Strategic Partners and selling those loans or receivables to our Strategic Partners or other third parties without recourse within a specified time after origination, such as three business days. Revenues are currently derived primarily from contracted program fees paid to us by our Strategic Partners and interest income earned while the loans or receivables remain on our books, offset by any transaction fees paid by us to our Strategic Partners for their role in processing loan applications or servicing loans. We have incurred compliance and other expenses associated with the development of the Strategic Partnership Program, and expect continued and increasing costs as the Strategic Partnership Program grows. The scope of our activities may change over time as we further develop this line of business.

Business Environment

The U.S. financial markets have continued to experience volatility and disruptions as concerns about the safety and soundness of the banking sector, the impact of higher inflation, rising interest rates, a potential recession, Russia's invasion of Ukraine, and the ongoing effects of the COVID-19 pandemic have weighed on market participants and consumers. These factors have resulted in deposit outflows from certain financial institutions, created disruptions in supply chains and economic activity and have had adverse impacts on the energy, raw materials and transportation sectors, among others.

Price inflation in the U.S. economy has caused market interest rates to increase generally, and the demand for our products and creditworthiness of our borrowers may be adversely affected. Increases in market interest rates have and could continue to increase our cost of funds, which has adversely affected and could continue to adversely affect our net interest margin. In addition, we have experienced, and may continue to experience, changes in loan origination credit quality mix, particularly for Recreation loans, that result in increased credit quality but at the expense of loan interest income yield. Because our deposits are concentrated in brokered deposits that have no right of voluntary withdrawals, we have not experienced deposit outflows that have impacted other financial institutions during the recent banking system instability. In addition, the recent banking instability has placed heightened focus on the impact that rising interest rates have had on the market values of available-for-sale and held-to-maturity securities portfolios of banks. Our deposits are acquired to fund our loan growth, and as a result our investment portfolio and unrealized losses were not material relative to our total assets and shareholder equity as of March 2023.

For additional information on the impact on our business of macroeconomic conditions that affect the U.S. economy, consumer spending and consumer credit, see Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Critical Accounting Estimates

We follow financial accounting and reporting policies that are in accordance with U.S. generally accepted accounting principles ("GAAP"). Some of these significant accounting policies require management to make difficult, subjective or complex judgments. The policies noted below, however, are deemed to be our "critical accounting policies" under the definition given to this term by the SEC: those made in accordance with GAAP that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations. These estimates are most important to the presentation of a company's financial condition and results of operations, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The judgments used by management in applying the critical accounting policies may be affected by deterioration in the economic environment, which may result in changes to future financial results. Specifically, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes to the allowance for credit losses in future periods, and the inability to collect on outstanding loans could result in increased credit losses.

Allowance for Credit Losses

In analyzing the adequacy of the allowance for credit losses for Recreation and Home Improvement loans under the CECL standard, we calculate the lifetime loss rate for loans using historical data, adjust that loss rate over a twelve-month reasonable and supportable forecast period with quantitative calculations based on movements in macroeconomic variables, and apply qualitative factors based on management judgment. Because Medallion loans have all been deemed impaired, they have been adjusted down to net collateral value using specific reserves as required under ASC 310. The allowance is evaluated on a regular basis by management and is based upon management's periodic review of the factors noted above. Performing loans are recorded at book value and the general reserve maintained to absorb expected losses consistent with GAAP.

Under the CECL lifetime loss standard in effect since January 1, 2023, our new methodology to calculate the allowance for credit losses includes the use of both quantitative and qualitative factors. The quantitative loss factors applied in the methodology are periodically re-evaluated and adjusted to reflect changes in credit characteristics of our loans and macroeconomic factors. Our quantitative loss factor rates increased 366 and 165 basis points for Recreation and Home Improvement loans, respectively, in March 2023 compared to March 2022, as a result of the transition to reserving for lifetime losses from the prior incurred losses methodology. Our qualitative loss factor rates decreased by 308 basis points and 124 basis points for Recreation and Home Improvements loans, respectively, in March 2023 compared to March 2022, as a result of the transition of some of the qualitative component of the reserve calculation to quantitative calculations, and management's assessment of the adequate reserve level for the portfolios.

Under the incurred loss standard in effect prior to January 1, 2023, the Bank analyzed the adequacy of the allowance for loan losses for Recreation and Home Improvement loans using a one-year look-back period. Prior to the third quarter of 2020, the Bank used historical delinquency and actual loss rates with a three-year look-back period for all performing Medallion loans. During the third quarter of 2020, we established specific reserves for all Medallion loans, adjusting them down to net collateral value, and stopped carrying a general reserve on Medallion loans. The allowance was evaluated on a regular basis by management and was based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions, and excess concentration risks. This evaluation was inherently subjective, as it required estimates that were susceptible to significant revision as more information became available.

Under the incurred loss standard, our methodology to calculate the general reserve portion of the allowance included the use of quantitative and qualitative factors. We initially determined an allowance based on quantitative loss factors for loans evaluated collectively for impairment. The quantitative loss factors were based primarily on historical loss rates, after considering loan type, historical loss and delinquency experience. The quantitative loss factors applied in the methodology were periodically re-evaluated and adjusted to reflect changes in historical loss levels or other risks. Our quantitative loss factor rates decreased by 143 basis points and 16 basis points for Recreation and Home Improvements loans, respectively, in March 2022 compared to March 2021, as a result of lower charge-offs in the twelve months ended March 2022. Qualitative loss factors were used to modify the reserve determined by the quantitative factors, and were designed to account for losses that were not included in the quantitative calculation according to management's best judgment. Our qualitative loss factor rates increased 80 basis points and 16 basis points for Recreation and Home Improvement loans, respectively, in March 2022 compared to March 2021, as a result of changes in macroeconomic conditions, including expectations related to inflation. The Recreation and Home Improvement loan portfolio reserves were calculated consistent with ASC 450, which was designed for homogeneous pools of loans. We segmented the portfolios by risk profile in order to reach the necessary level of homogeneity. Our Medallion loans were analyzed on a more granular level, were segmented by jurisdiction, and as of the third quarter of 2020 are subject to specific reserves as required by ASC 310. Prior to the third quarter of 2020, all Medallion loans were assigned a credit grade using an 8-point grading system. The credit grading process was subjective and administered by our loan servicer, MFIN, under the oversight of our Chief Lending Officer and related Loan Portfolio Review Committee.

Medallion loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. We consider all nonaccrual loans and loans restructured under modified terms, including, for example, rate reductions, principal forgiveness, term extensions, payment forbearance, and other actions that are worse than market to be impaired loans, and the related specific allowances for losses are determined on an individual basis. Impairment testing is done using the collateral method or a discounted cash flow model and, if a value deficiency is found, a specific reserve is booked to the allowance for loan losses. Since the third quarter of 2020, we are testing all Medallion loans for impairment using the collateral method and booking specific reserves as needed.

The determination of taxi medallion collateral fair value is derived quarterly for each jurisdiction. For Medallion loans, nonperforming loans are valued at collateral value for the most recent quarter. Collateral value for the Medallion loans is generally determined utilizing factors deemed relevant under the circumstances of the market including but not limited to: actual transfers, pending transfers, median and average sales prices, discounted cash flows, market direction and sentiment, and general economic trends for the industry and economy. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

We charge off Recreation, Home Improvement and Medallion loans in the period that such loans are deemed uncollectible or when they reach 120 days delinquent. Prior to the quarter ended March 2023, Recreation loans that were subject to an active bankruptcy proceeding were charged down to 60% of the outstanding loan balance until the bankruptcy was discharged.

The methodology used in the periodic review of reserve adequacy, which is performed at least quarterly, is designed to be responsive to changes in portfolio credit quality and inherent credit losses. The changes are reflected in both the pooled formula reserve and in specific reserves as the collectability of larger classified loans is regularly recalculated with new information as it becomes available. Management is primarily responsible for the overall adequacy of the allowance. In addition, allowance adequacy is also approved by the board of directors and assessed by the Bank's internal audit function, which performs independent credit reviews and a validation of the allowance model.

In addition, bank regulators, as an integral part of their supervisory functions, periodically review our loan portfolio and related allowance for loan losses. These regulatory agencies may require us to increase our provision for loan and lease losses or to recognize further loan charge-offs based upon their judgments, which may be different from ours. An increase in the allowance for loan losses required by these regulatory agencies could materially adversely affect our financial condition and results of operations.

Deferred Taxes

Deferred taxes reflect the impact of temporary differences between the carrying amount of assets and liabilities and their tax basis and are stated at tax rates expected to be in effect when taxes are actually paid or recovered. Deferred tax assets are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their existing tax bases. In addition, a valuation allowance is recorded when it is deemed that some or all of the deferred tax assets will not be realized due to temporary differences.

Key Elements for Three months ended March 2023 compared to Three months ended March 2022

Below are key elements of our performance for the three months ended March 2023 compared to the three months ended March 2022.

- Net income was $21.4 million for the three months ended March 2023 compared to $18.8 million for the three months ended March 2022. The increase in net income was driven by an increase in net interest income as a result of growth in both our Recreation Lending and Home Improvement Lending segments, and partially offset by increases in provision for credit losses and operating expenses.

- Pre-provision net revenue ("PPNR"), which is a non-GAAP financial measure calculated by excluding our provision for credit losses from our pre-tax income, was $33.0 million for the three months ended March 2023, compared to PPNR of $27.6 million for the three months ended March 2022. The increase in PPNR was driven by an increase in net interest income as a result of growth in both our Recreation Lending and Home Improvement Lending segments. See "Non-GAAP Financial Measures" below for additional information, including a reconciliation of PPNR to the most comparable GAAP presentation.

- Loan origination volumes increased 6.9% to $223.7 million during the three months ended March 2023 compared to the three months ended March 2022, driven by growth in Home Improvement and Strategic Partnership loan volumes which was partially offset by a decline in Recreation loan volumes.

- Net interest income increased 19.2% to $44.3 million for the three months ended March 2023 compared to the three months ended March 2022, primarily due to higher average balances in our Recreation and Home Improvement loan portfolios.

- Our efficiency ratio was 25.51% for the three months ended March 2023, a decline of 26 basis points over the efficiency ratio for the three months ended March 2022.

- Gross loan delinquencies 30 days or greater increased by 15 basis points to 2.30% of period-end loan portfolio balances for the three months ended March 2023 compared to three months ended March 2022, largely due to declining credit performance by our borrowers as delinquency levels normalized from historically low levels at March 2022 and partially offset by a change in practice to charge off Recreation loans to borrowers in bankruptcy.

- Our net charge-off rate increased 177 basis points to 2.5% for the three months ended March 2023 compared to the three months ended March 2023, due primarily to an increase in net charge-offs in the Recreation and Home Improvement loan portfolios. Our provision for credit losses increased by $1.7 million for the three months ended March 2023 compared to the three months ended March 2022, primarily due to loan portfolio growth and the normalization of loan losses after a period of historically low loss rates, and partially offset by a benefit for credit losses due to structured legal settlements and recoveries related to Medallion loans.

- Our Tier 1 capital increased by $12.8 million from December 2022, reflecting increased net income and partially offset by dividends paid during the three months ended March 2023, and our Tier 1 leverage ratio increased to 16.4% compared to 16.2% at December 2022, primarily due to the increase in Tier 1 capital.

Results of Operations

Net Income

Net income was $21.4 million for the three months ended March 2023, compared to net income of $18.8 million for the three months ended March 2022. The increase in net income for the three months ended March 2023 was driven by an increase in interest income, partially offset by an increase in interest expense, provision for credit losses, and non-interest expense.

The returns on average shareholders' equity and average total assets for the three months ended March 2023 were 28.38% and 4.36%, respectively, compared to 28.55% and 4.82%, respectively, for the three months ended March 2022.

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Interest income	$ 52,934	$ 41,345
Interest expense	8,600	4,154
Net interest income	44,334	37,191
Provision for loan losses	3,859	2,144
Net interest income after provision for loan losses	40,475	35,047
Non-interest gain/(loss)	32	(230)
Non-interest expense	11,317	9,332
Earnings before provision for income taxes	29,190	25,485
Provision for income taxes	7,765	6,701
Net income	$ 21,425	$ 18,784

Other Financial and Statistical Data

The following table sets forth certain other financial and statistical data for the periods indicated:

	As of and For the Three months ended March 31,			
	2023		2022	
	$	%	$	%
Return on average assets		4.36 %		4.82 %
Return on average equity		28.38 %		28.55 %
Equity to assets		15.24 %		16.63 %
Non-interest expense as a % of average loan receivables		2.48 %		2.61 %
Efficiency ratio[(1)]		25.51 %		25.25 %
Effective income tax rate		26.60 %		26.30 %
Total loan receivables	1,887,627		1,493,762	
Average balances				
Recreation	1,194,275		981,996	
Home Improvement	648,088		454,417	
Medallion	7,671		11,254	
Other	3,059		1,967	
Interest-earning cash and equivalents	1,250		1,250	
Federal Funds Invested	81,359		63,643	
Securities available for sale	48,289		44,434	
Equity securities	1,731		1,927	
Net charge-offs	11,383		2,573	
Recreation	9,816	3.33 %	2,600	1.07 %
Home Improvement	1,283	0.80 %	621	0.55 %
Medallion	294	15.54 %	(643)	(23.17)%
Other	(10)	(1.33)%	(5)	(1.03)%
Allowance for credit losses as a % of period-end loan receivables				
Recreation	(49,938)	4.12 %	(35,686)	3.54 %
Home Improvement	(14,656)	2.19 %	(8,418)	1.78 %
Medallion	(1,041)	94.29 %	(8,824)	79.10 %
Other	(26)	0.74 %	(27)	1.35 %
30+ days past due as a % of period-end loan receivables				
Recreation	38,647	3.19 %	29,134	2.98 %
Home Improvement	4,450	0.66 %	2,354	0.49 %
Medallion	385	34.87 %	—	— %
Other	—	— %	—	— %
Asset Quality Ratios				
Gross nonperforming loans to total gross loans		0.46 %		1.31 %
Allowance for credit losses to gross nonperforming loans		764.51 %		275.48 %

(1) Efficiency ratio is the ratio of non-interest expense to the sum of net interest income and non-interest income.

Average Balance Sheet

The following table provides average balance sheet details for the periods indicated, which are used in the discussion of interest income, interest expense and net interest income that follows:

	As of and For the Three Months Ended March 31,					
	2023			2022		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Interest-earning cash and cash equivalents	$ 1,250	$ 5	1.62%	$ 1,250	$ 5	1.62%
Fed Funds Sold	81,359	703	3.50 %	63,643	14	0.09 %
Securities available for sale	48,289	360	3.02 %	44,434	209	1.91 %
Equity Securities	1,731	10	2.34 %	1,927	5	1.05 %
Loan receivables:						
Recreation	1,194,275	37,899	12.87 %	981,996	31,195	12.88 %
Home Improvement	648,088	13,649	8.54 %	454,417	9,791	8.74 %
Medallion	7,671	231	12.21 %	11,254	9	0.32 %
Other	3,059	78	10.34 %	1,967	117	24.12 %
Total loan receivables	1,853,093	51,857	11.35 %	1,449,634	41,112	11.50 %
Allowance for loan losses	(67,687)			(53,102)		
Net loan receivables	1,785,406			1,396,532		
Non-interest-earning assets:						
Cash and due from banks	372			136		
Accrued interest receivable	11,980			10,361		
Repossessed inventory – recreation	1,550			1,467		
Repossessed inventory – taxi medallion	18,554			27,642		
Other assets held in bankruptcy	1,800			1,800		
Deferred and other tax assets, net	10,692			7,465		
Other assets	30,739			24,431		
Total assets	$ 1,993,722			$ 1,581,088		
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$ 1,642,177	$ 8,601	2.12%	$ 1,280,179	$ 4,154	1.32%
Borrowings	—	—	—	—	—	—
Total interest-bearing liabilities	$ 1,642,177	$ 8,601	2.12%	1,280,179	$ 4,154	1.32%
Non-interest-bearing liabilities:						
Accrued interest payable	2,305			1,378		
Other liabilities	14,842			11,065		
Due to affiliates	611			706		
Dividends payable	1,710			1,710		
Taxes payable	25,844			19,204		
Shareholders' Equity	306,233			266,846		
Total liabilities and Equity	$ 1,993,722			$ 1,581,088		
Interest rate spread			8.69%			9.43%
Net interest income		44,334			37,191	
Net interest margin			9.05%			9.66%

Net Interest Income

Net interest income is the difference between interest earned on assets and interest incurred on liabilities, and typically constitutes a substantial majority of our total revenue. For the three months ended March 2023, net interest income was $44.3 million compared to $37.2 million for the three months ended March 2022. The following sections provide a description of the component parts of net interest income:

Interest Income

Interest income is comprised of interest and fees on loans, which includes discounts paid by dealers, contractors and FSPs to compensate us for all or part of the promotional financing provided to their customers, and interest on cash and cash equivalents and investment securities. We include interest and fees on loans and any past due interest and fees deemed to be collectible in interest income. Fees on loans and certain direct loan origination costs are deferred and amortized over the expected life of the loan to better match income and expense in accordance with GAAP. Both fees and costs are captured in interest and fees on loans, with fees increasing yield and costs decreasing yield. See “Note 1. Organization and Summary of Significant Accounting Policies” in the unaudited financial statements included elsewhere in this Form 10-Q for additional information on our revenue recognition policy for interest income.

Interest income increased by $11.6 million, or 28.00%, for the three months ended March 2023, compared to the three months ended March 2022, due primarily to higher average balances in our consumer loan portfolios.

The yield on our average loans outstanding decreased to 11.35% for the three months ended March 2023, compared to 11.50% for the three months ended March 2022. The yield decrease was primarily due to reductions in the average interest rates on new loans originated for both Recreation and Home Improvement loans plus an increase in the percentage of interest-earning assets attributable to Home Improvement loans, which typically have a lower yield than Recreation loans.

Interest Expense

Interest expense increased by $4.4 million, or 107.0%, for the three months ended March 2023, compared to the three months ended March 2022, driven by an increase in our overall cost of funds and growth in our deposit liabilities. Our average cost of funds increased to 2.12% for the three months ended March 2023 compared to 1.32% for the three months ended March 2022, mostly due to increases in market interest rates.

Provision for Credit Losses

Our provision for credit losses was $3.9 million for the three months ended March 2023, compared to a $2.1 million provision for loan losses for the three months ended March 2022, an increase of $1.8 million, or 84.0%. The increase was primarily due to growth in our Recreation and Home Improvement loan portfolios, loan loss rates for Recreation and Home Improvement loan portfolios normalizing instead of falling toward historical lows, the transition to the CECL methodology, and partially offset by an increase in Medallion loan structured settlements and recoveries.

Recreation and Home Improvement Loan Provisions

Provisions for the three months ended March 2023 increased in the Recreation and Home Improvement loan portfolios largely due to portfolio growth, rising recent quantitative loss rates as loan losses normalized, and the transition to the CECL methodology for credit loss reserves. Under the CECL methodology, we calculate the lifetime loss rate for loans using historical data, adjust that loss rate over a twelve-month reasonable and supportable forecast period with quantitative calculations based on movements in macroeconomic variables, and apply qualitative factors based on management judgment.

Our quantitative loss rate calculation increased by 366 basis points and 165 basis points for Recreation and Home Improvements loans, respectively, in March 2023 compared to March 2022, as a result of the transition to the CECL methodology from the prior incurred loss methodology. Our qualitative loss factor rates decreased by 308 basis points and 124 basis points for Recreation and Home Improvements loans, respectively, in March 2023 compared to March 2022, as a result of the transition of some of the qualitative component of the reserve calculation to quantitative calculations over the reasonable and supportable forecast period, and management's assessment of the adequate reserve level for the portfolios. The provision for Recreation loans for the three months ended March 2023 was $7.8 million compared to $1.7 million for the three months ended March 2022. The provision for Home Improvement loans for the three months ended March 2023 was $3.1 million, compared to $1.2 million for the three months ended March 2022.

Medallion Valuation Methodology and Loan Provisions

The determination of taxi medallion collateral fair value is derived quarterly for each jurisdiction. Management uses different reserve methodologies for performing and nonperforming Medallion loans. Nonperforming Medallion loans, which, as of March 2023, included all Medallion loans, are valued at collateral value for the most recent quarter. Collateral value for Medallion loans is generally determined utilizing factors deemed relevant under the circumstances of the market including but not limited to: actual transfers, pending transfers, median and average sales prices, discounted cash flows, market direction and sentiment, and general economic trends for the industry and economy. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The benefit for loan losses for Medallion loans for the three months ended March 2023 was $7.0 million compared to $0.7 million for the three months ended March 2022. The increase in benefit was driven by structured legal settlements that resulted in a release of credit loss reserves and higher recoveries, and partially offset by charge-offs.

For additional information about the provision for credit losses and the allowance, see the discussion of asset quality and the allowance for credit losses below, as well as in "Note 3. Loans and Allowance for Credit Losses" in the unaudited financial statements included elsewhere in this Form 10-Q.

Non-Interest Income

For the three months ended March 2023, non-interest income was $32,000, compared to a loss of $230,000 for the three months ended March 2022. The increase in non-interest income for the three months ended March 2023 was the result of lower write-downs of the estimated value of our repossessed loan collateral compared to the three months ended March 2022.

Non-Interest Expense

Non-interest expense was $11.3 million for the three months ended March 2023, compared to $9.3 million for the three months ended March 2022. The increase was due primarily to higher salary and benefits costs and collection costs.

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Loan servicing	$ 2,815	$ 2,725
Regulatory fees	682	451
Salaries and benefits	4,392	3,505
Collection costs	1,458	1,158
Professional fees	667	411
Occupancy and Equipment	202	244
Other	1,101	838
Total	$ 11,317	$ 9,332

Transactions with Affiliates

We benefit from services we receive from MFIN and certain other affiliates. In 2010, MFIN formed Medallion Servicing Corp. ("MSC") to provide loan servicing, collection and other customer services to the Bank pursuant to a loan servicing agreement. The services provided by MSC to the Bank include services in connection with the liquidation of our Medallion loan portfolio. In addition, the Bank historically received loan origination and marketing services from Medallion Funding LLC, a wholly owned small business investment company subsidiary of MFIN. We also receive certain corporate services, including support for human resources and legal from MFIN pursuant to a corporate services agreement. We expect servicing and collection costs to remain relatively high as a result of ongoing servicing and workouts associated with the Medallion loan portfolio. Costs related to human resources services will depend on the number of employees at the Bank, and costs for legal support will vary from period to period depending on the projects active at the time. As of March 2023, and December 2022, the Bank held a $100,000 collateral deposit due to MFIN.

In the three months ended March 2023, we compensated MFIN for loan servicing in the amount of $0.6 million, which was a decrease of $0.1 million compared to the related compensation in the three months ended March 2022. This was due to a decrease in servicing and collection activity associated with Medallion loans as the portfolio decreased in size. We compensated MFIN in the amount of $0.1 million for corporate services for both the three months ended March 2023 and the three months ended March 2022.

Provision for Income Taxes

Our income tax expense reflects management's best estimate of current and future taxes to be paid. In projecting future taxable income, we begin with historical results and incorporate assumptions about the amount of future state and federal operating income. These assumptions about future taxable income require judgment and are consistent with the plans we use to manage our segments.

As a consolidated entity with MFIN for tax purposes, the Bank makes its estimated tax payments to MFIN instead of directly to the Internal Revenue Service. The Bank makes some of its state tax payments directly to states to which it has an obligation and some on a consolidated basis with MFIN.

In the three months ended March 2023, we recognized income tax expense of $7.8 million.

Segment Results

Based on our internal operating structure, we determined our operations are organized into three reportable segments representing our two core businesses – Recreation Lending and Home Improvement Lending – and an Other segment. As we grow and develop our Strategic Partnership Program which is currently included within our Other segment, we will monitor our segment composition.

Our Recreation Lending segment is a consumer finance business that works with third-party dealers and FSPs for the purpose of financing RVs, boats and other consumer recreational equipment. The Home Improvement Lending segment is a consumer finance business that works with contractors and FSPs in order to finance residential home improvements. The Other segment consists of our remaining operations, including Medallion loans, activities related to our Strategic Partnership Program and other loans. The primary factors considered in determining the reportable segments for our core businesses include the nature of the underlying collateral financed, the resources used to provide the products and services to our dealers, contractors and FSPs, and our internal operating structure.

The segment information reported is based on the "management approach" as described in ASC 280. The Bank's segment results are intended to reflect each segment as if it were a stand-alone business. Management's accounting process uses various estimates and allocation methodologies to measure the performance of each segment. To establish the financial performance for each segment, the Bank allocates funding costs and certain non-interest expenses to each segment, as applicable.

As a consolidated subsidiary of MFIN, the Bank's assets, liabilities, results of operations and cash flows are reflected in MFIN's consolidated financial statements. Financial information relating to the Bank in the Bank's disclosures, including this Form 10-Q, may not be comparable to financial information about the Bank in MFIN's SEC filings because of intercompany assets, liabilities, revenues and expenses between the Bank, on the one hand, and MFIN and MFIN's other consolidated subsidiaries, on the other hand, that are eliminated in consolidation, as well as methodological differences in segment disclosures. The methodological differences in segment disclosures reflect differences in the assets, liabilities, revenues, expenses and activities of the Bank, on a standalone basis, and MFIN, on a consolidated basis.

Recreation Lending

The Recreation Lending segment has typically been a high-growth prime and non-prime consumer finance business which is a significant source of income for the Bank, accounting for 71.6% and 75.5% of our interest income for the three months ended March 2023 and 2022, respectively. The loans are secured primarily by RVs, boats and trailers.

	Three months ended March 31,	
	2023	**2022**
	(in thousands)	
Gross interest income	$ 40,434	$ 33,634
Amortization of loan origination costs	$ (2,535)	$ (2,439)
Other income	$ —	$ —
Interest expense	$ 5,061	$ 2,848
Provision for credit losses	$ 7,751	$ 1,680
Servicing fees	$ 2,531	$ 2,175
Salaries	$ 2,371	$ 1,979
Direct	$ 357	$ 328
Overhead	$ 1,469	$ 1,240
Net income before taxes	$ 18,359	$ 20,945
Average loans outstanding	$1,194,275	$ 981,996
(as a % of average loans outstanding)		
Gross interest income	13.73%	13.89%
Amortization of loan origination costs	(0.86)	(1.01)
Other income	—	—
Interest expense	(1.72)	(1.18)
Provision for credit losses	(2.63)	(0.69)
Servicing fees	(0.86)	(0.90)
Salaries	(0.81)	(0.82)
Direct	(0.12)	(0.14)
Overhead	(0.50)	(0.51)
Net income before taxes	6.23	8.65

Net income before taxes decreased $2.6 million to $18.4 million in the three months ended March 2023 over the three months ended March 2022, primarily due to an increase in provision for loan losses as a result of loan portfolio growth, loan loss rates normalizing, and a change in practices to charge off loans to borrowers in bankruptcy, partly offset by net interest income growth.

During the three months ended March 2023, we originated $101.7 million of Recreation loans, a decrease of $12.7 million from the three months ended March 2022 driven by the normalization of demand for RVs and boats in 2023 after an elevated period of demand in 2020-2022 related to the pandemic.

In addition to offering prime credit financing, we specialize in helping recreation product dealerships finance customers with past credit challenges, which include bankruptcy, tax liens, collections and other credit issues. The proportion of Recreation loans funded that are prime credit increased dramatically in 2009 as a result of financial crisis-related market disruptions, then declined somewhat in 2018 and 2019 as competition increased for prime credit loans, before rebounding in the second half of 2020 as a result of tightening our underwriting standards during the acute phase of the COVID pandemic. As of March 2023 and 2022 the weighted average origination FICO scores of our loans outstanding were 671 and 669 for this portfolio, respectively. The weighted average FICO scores at the time of origination for the loans funded in the three months ended March 2023 and 2022 were 677 and 689, respectively. Management uses weighted average FICO scores as an indicator of portfolio risk. Starting in the first quarter of 2023, the weighted average FICO score at the time of origination is calculated using the highest of the borrower and co-borrower FICO scores, which is consistent with our underwriting practices. Prior period numbers have been conformed to the current presentation. Due to our use of custom credit scoring models during underwriting that we believe more effectively assess credit risk than FICO scores alone, weighted average FICO scores are not a comprehensive assessment of credit risk.

Recreation loans represented $1.2 billion, or 64.3%, of the Bank's loan portfolio as of March 2023, up from $1.2 billion, or 64.9%, of the Bank's loan portfolio as of December 2022. The gross interest yield of our Recreation loan portfolio was 13.73% for the three months ended March 2023, compared to 13.89% for the three months ended March 2022.

The Bank maintains relationships with approximately 3,000 dealers and FSPs, not all of which are active at any one time. The ability of FSPs to aggregate the financing and relationship management for many small dealers makes them valuable to the Bank. Recently, the number of dealers and FSPs active with the Bank has declined due to market consolidation and supply chain disruption-based strain on small dealers. Management monitors the number of dealers and FSPs and their relative contributions as a means of assessing market share and segment growth. Over time, changes in these metrics will provide investors with information about origination concentration and growth trends in the segment. In the three months ended March 2023 and 2022, 43% and 50% of Recreation Lending's new loan originations, respectively, were from our top ten dealer and FSP relationships. The percentage of new loan originations by the top ten dealer and FSP relationships is a measure of concentration within the segment, which management uses to determine whether to undertake diversification efforts, and which provides investors with information about origination concentration.

The Recreation loan portfolio consists of thousands of geographically distributed loans with an average loan size of $18,500. The loans are fixed rate loans with an average loan term at origination of 11.0 years. The weighted average maturity of our loans outstanding is 9.5 years. See "Loan Portfolios." The loan terms and weighted average maturities aid management in making appropriate funding type and maturity decisions and provide investors with information about the characteristics of our loan portfolio and asset-liability management activities. Recreation loans are made to borrowers residing in all fifty states, with the highest concentrations in Texas and Florida at 15% and 10% at March 2023, respectively, compared to concentrations in Florida, and Texas at 16%, and 11% of loans outstanding at December 2022, respectively, and with no other states over 10%. Recreation loans are secured primarily by RVs and boats, with RV loans making up 54% of the portfolio and boat loans making up 18% of the portfolio at March 2023, compared to 54% and 18%, at December 2022. The percentage of new loan originations by state and by collateral type provide management and investors with information about concentration exposures, which management uses to monitor concentrations and determine whether to undertake diversification efforts.

Our Recreation Lending net charge-offs for the three months ended March 2023 and 2022 were 3.33% and 1.07% of average loans outstanding, respectively. The increase in net charge-offs in our Recreation Lending segment in the year ended March 2023 was due in part to a change in practice to charge off loans to borrowers in bankruptcy, and declining credit performance.

Our Recreation Lending provisions for credit losses for the three months ended March 2023 and 2022 were 2.63% and 0.69% of average loans outstanding, respectively. The increase from March 2022 to March 2023 was largely due to the normalization of loan loss rates after a downward trend in 2022, and portfolio growth.

We maintain an allowance for Recreation credit losses that was $49.9 million, or 4.12%, of the Recreation loan portfolio as of March 2023. The recovery rates and typical time periods for repossessing and liquidating the collateral underlying our Recreation loans mitigates our exposure to loan losses in this portfolio. Our practice is to perfect security interests in the underlying collateral, when possible, except when it is impractical given the small size of the loan or collateral perfection requirements in particular states. If state law permits titling of collateral, we typically perfect our interest via the titling process, which designates the Bank as a lien holder on the title for the collateral and thus facilitates the process for repossession under applicable state law. If a UCC filing is the only mechanism to perfect our interest in collateral, we record that UCC filing in state records.

Home Improvement Lending

The Home Improvement Lending segment originates loans secured primarily by window, siding, and roof replacements, and swimming pool installations.

	Three months ended March 31,	
	2023	2022
	(in thousands)	
Gross interest income	$ 13,062	$ 9,471
Amortization of loan origination costs	587	320
Other income	1	8
Interest expense	2,815	987
Provision for credit losses	3,081	1,205
Servicing fees	727	509
Salaries	1,703	1,298
Direct	152	184
Overhead	821	396
Net income before taxes	$ 4,351	$ 5,220
Average loans outstanding	$ 648,088	$ 454,417
(as a % of average loans outstanding)		
Gross interest income	8.17 %	8.45 %
Amortization of loan origination costs	0.37	0.29
Other income	—	0.01
Interest expense	(1.76)	(0.88)
Provision for credit losses	(1.93)	(1.08)
Servicing fees	(0.45)	(0.45)
Salaries	(1.07)	(1.16)
Direct	(0.10)	(0.16)
Overhead	(0.51)	(0.35)
Net income before taxes	2.72	4.66

Net income before taxes decreased to $4.4 million for the three months ended March 2023 compared to $5.2 million in 2022, mostly due to an increase in provision for credit losses and interest expense, partially offset by an increase in gross interest income.

During the three months ended March 2023, we originated $95.0 million of Home Improvement loans, an increase of $5.2 million from the three months ended March 2022 driven primarily by increasing demand.

Home Improvement loans represented $669.6 million, or 35.5%, of the Bank's loan portfolios as of March 2023, up from $626.4 million, or 34.4%, of the Bank's loan portfolios as of December 2022. Home Improvement Lending provides us with high-quality assets; as of March 2023 and 2022 the weighted average origination FICO scores of our loans outstanding in this portfolio were 753 and 753, respectively. The weighted average FICO scores at the time of origination for the loans funded in the three months ended March 2023 and 2022 were 766 and 769, respectively. Management uses weighted average FICO scores as an indicator of portfolio risk. Starting in the first quarter of 2023, the weighted average FICO score at origination is calculated using the highest of the borrower and co-borrower FICO scores, which is consistent with our underwriting practices. Prior period numbers have been conformed to the current presentation. Due to our use of custom credit scoring models during underwriting that we believe more effectively assess credit risk than FICO scores alone, weighted average FICO scores are not a comprehensive assessment of credit risk. The gross interest yield of the Home Improvement Lending portfolio was 8.17% for the three months ended March 2023, compared to 8.45% for the three months ended March 2022.

The Bank currently has relationships with approximately 1,000 contractors and FSPs. Management monitors the number of contractors and FSPs and their relative contributions as a means of assessing market share and segment growth. Over time, changes in these metrics will provide investors with information about origination concentration and growth trends in the segment. In the three months ended March 2023 and 2022, 61% and 54% of Home Improvement Lending's new loan originations, respectively, were from our top ten contractor and FSP relationships. The Home Improvement loan portfolio is concentrated in roofs, swimming pools and windows at 40%, 21% and 13% at March 2023, respectively, compared to concentrations in roofs, swimming pools and windows at 37%, 23%, and 12% at December 2022, respectively, with no other collateral types over 10%. Home Improvement loans are made to borrowers residing in all fifty states, with the highest concentrations in Texas and Florida at 10% each as of March 2023, compared to concentrations in Texas and Florida, each at 10% at December 2022, and with no other states over 10%. The percentage of new loan originations by the top ten relationships, by collateral type and by state provides management and investors with information about concentration exposures that management uses to determine whether to undertake diversification efforts.

The weighted average maturity of our loans outstanding was 12.4 years as of March 2023 and the average loan size was $19,500. The average loan term at origination is 13.6 years. See "Loan Portfolios." The loan terms and weighted average maturities aid management in making appropriate funding type and maturity decisions and provide investors with information about the characteristics of our loan portfolio and asset-liability management activities.

Our Home Improvement Lending net charge-offs for the three months ended March 2023 and 2022 were 0.80% and 0.55% of average loans outstanding, respectively. Since we commenced Home Improvement Lending in early 2012, net charge-offs have not exceeded 1.12%. Geographic dispersion of the Home Improvement loan portfolio supplements credit quality in reducing risk.

Our Home Improvement Lending provisions for credit losses for the three months ended March 2023 and 2022 were 1.93% and 1.08% of average loans outstanding, respectively. The increase in the three months ended March 2023 was largely due to the normalization of loan loss rates and portfolio growth.

We maintain an allowance for Home Improvement loan losses that was $14.7 million, or 2.19%, of the Home Improvement loan portfolio as of March 2023. Losses in the Home Improvement loan portfolio are initially gross losses because recoveries are relatively slow, sometimes taking years to realize. This is due to the nature of the UCC fixture filing, which is our means of perfecting the security interest for Home Improvement loans. Recovery is generally realized upon the sale or refinance of the underlying real property. We obtain the right to file a UCC fixture filing in county records for all loans in the security agreement of our loan, but our practice is to record UCC fixture filings at origination for only those loans which finance swimming pool installations, for home improvement projects with large loan amounts, or for borrowers who have relatively low credit scores. We often record UCC fixture filings after origination for loans without perfected collateral that become delinquent. The UCC fixture filing does not give us the right to foreclose, and we do not repossess collateral. Instead, the UCC filing appears in real property records to notify lienholders of our interest in the personal property affixed to that real property.

Other

The Other segment includes Medallion loans, activities related to our Strategic Partnership Program and other loans, as well as cash, investments and net non-interest earning assets.

	Three months ended March 31,	
	2023	**2022**
Gross interest income	1,386	359
Amortization of loan origination costs	—	—
Other income (costs)	31	(238)
Interest expense	725	318
Provision (benefit) for loan losses	(6,973)	(741)
Servicing fees	833	971
Salaries	318	215
Direct	19	17
Overhead	17	19
Net income (loss) before taxes	6,478	(678)
Average loans outstanding	10,730	13,221
(as a % of average loans outstanding)		
Gross interest income	52.40%	2.72%
Amortization of loan origination costs	—	—
Other income (costs)	1.17	(1.80)
Interest expense	(27.39)	(2.41)
Provision for loan losses	263.55	5.60
Servicing fees	(31.48)	(7.34)
Salaries	(12.02)	(1.63)
Direct	(0.71)	(0.13)
Overhead	(0.65)	(0.15)
Net income (loss) before taxes	244.87	(5.13)

Net income for the Other segment was $6.5 million in the three months ended March 2023 compared to net loss of $0.7 million for the three months ended March 2022 due to structured legal settlements and recoveries related to Medallion loans.

Other loans represented $4.6 million, or 0.24%, and $12.8 million, or 0.70%, of the Bank's loan portfolios as of March 2023 and December 2022, respectively.

Included in Other loans is a Medallion loan portfolio that is declining as a result of charge-offs, a structured legal settlement, and amortization payments. Until September 2014, we originated Medallion loans, which finance the purchase of taxi medallions, in connection with MFIN's business. However, due to the dramatic impact of ride-sharing companies like Uber and Lyft on taxi fare volumes and taxi medallion values, we transitioned away from this aspect of our business. We continue to refinance Medallion loans as they mature, given the scarcity of alternative financing for such borrowers. All loans associated with our Medallion loan portfolio are secured by taxi medallions and guaranteed by the taxi medallion owners. Our remaining Medallion loans are concentrated in New York City. Our Medallion loan portfolio declined from $393.9 million at its peak in July 2014 to $1.1 million and $10.5 million as of March 2023 and December 2022, respectively. Credit loss reserves are currently 94.3% of the outstanding Medallion loan portfolio as of March 2023 and the Medallion loan portfolio has decreased to 0.1% of our total assets as of March 2023, down from a high of 46.9% as of December 2011. See "Critical Accounting Estimates" elsewhere in this document for a discussion of our allowance methodology.

The following table presents the Bank's total exposure to Medallion loans and related assets within our Other segment:

	As of March 31, 2023	As of December 31, 2022
	(in thousands)	
Loans	$ 1,764	$ 11,179
Net deferred loan acquisition costs	(660)	$ (660)
Allowance for credit losses	(1,041)	$ (8,298)
Loans, net	63	$ 2,221
Repossessed inventory- taxi medallion	8,149	$ 9,005
Remarketed assets, net	7,249	$ 7,511
Total	$ 15,461	$ 18,737

Loan Portfolios

Total loans increased by $64.9 million to $1.9 billion as of March 2023, from $1.8 billion as of December 2022, as a result of Recreation and Home Improvement loan growth, partially offset by the continued reduction in Medallion loan balances. Our total loan-to-deposit ratio decreased to 111.2% as of March 2023 from 113.2% as of December 2022. The recent decrease in the loan-to-deposit ratio was largely due to growth in deposit balances as we increased liquidity levels during the three months ended March 2023.

	As of March 31, 2023		As of December 31, 2022	
	Amount	%	Amount	%
	(dollars in thousands)			
Loan receivables				
Recreation	$1,213,380	64.27%	$1,183,512	64.92%
Home Improvement	669,642	35.48	626,398	34.37
Medallion	1,104	0.06	10,519	0.58
Other	3,501	0.19	2,308	0.13
Total	$1,887,627	100.00%	$1,822,737	100.00%

As of March 2023 and 2022, the Recreation loan portfolio represented 64.3% and 64.9% of outstanding loan balances, while our Home Improvement loan portfolio represented 35.5% and 34.4%, and the Medallion loan portfolio represented 0.1% and 0.6% of outstanding loan balances, respectively. The decreases in the Medallion loan portfolio were a result of our strategy to no longer originate loans to finance the purchase of taxi medallions, cash settlements, charge-offs and recoveries associated with Medallion loans, and loans transferred to loan collateral in process of foreclosure.

Because of high prepayment speeds due both to early pay-downs and payoffs, the average life associated with our consumer loan portfolios is significantly shorter than the average maturity. The average life of our Recreation loans is projected to be 38 months, while the average life of our Home Improvement loans is projected to be 31 months. The average life of our loans aids management in making appropriate funding type and maturity decisions, and provides investors with information about the characteristics of our loan portfolios and asset-liability management activities. Our calculations use the contractual amortization amount plus projected loan losses and monthly prepayment speeds consistent with our experience over the prior 12 months for both portfolios. In the case of Recreation loans, the projected loss assumption is 223 basis points, and the prepayment speed assumption is 1.78% per month. For Home Improvement loans, the projected loss assumption is 83 basis points, and the prepayment speed assumption is 2.67% per month. For comparison, the average maturities referenced elsewhere in this Form 10-Q are based on the contractual terms of the loans in each portfolio.

	As of March 31, 2023				
	Months to Maturity				
	Within 1 year	1-5 years	5-15 years	15+ years	Total Gross Loans
			(in thousands)		
Fixed rate					
Recreation	$ 2,036	$ 116,648	$ 1,027,725	$ 25,478	$ 1,171,887
Home Improvement	11,101	31,362	465,991	163,636	672,090
Medallion	898	866	—	—	1,764
Other	1,769	1,731	—	—	3,500
Adjustable rate					
Recreation	$ 2,350	$ 377	$ —	$ —	$ 2,727
Home Improvement	—	—	—	—	—
Medallion	—	—	—	—	—
Other	—	—	—	—	—
Total gross loans	$ 18,154	$ 150,984	$ 1,493,716	$ 189,114	$ 1,851,968

Credit Quality

For consumer loans, we consider the borrower's payment history and current payment performance as leading indicators of credit quality. Recreation, Home Improvement and Medallion loans are considered nonperforming generally when they become 90 days delinquent based on contractual terms, at which time the accrual of interest income is discontinued, or when otherwise impaired.

	Gross Performing	Gross Nonperforming	Total
		(in thousands)	
As of March 31, 2023			
Recreation	$ 1,169,961	$ 4,653	$ 1,174,614
Home Improvement	671,648	441	672,089
Medallion	—	1,764	1,764
Other	1,770	1,731	3,501
Total	$ 1,843,379	$ 8,589	$ 1,851,968
As of December 31, 2022			
Recreation	$ 1,136,725	$ 9,371	$ 1,146,096
Home Improvement	628,298	579	628,877
Medallion	—	11,179	11,179
Other	571	1,737	2,308
Total	$ 1,765,594	$ 22,866	$ 1,788,460

The decrease in the value of gross nonperforming loans as of March 2023 compared to December 2022 was driven by structured legal settlements and charge-offs of Medallion loans, and a change in practice to charge off Recreation loans to borrowers in bankruptcy.

Nonperforming Assets

Nonperforming assets include nonperforming loans as well as other repossessed assets. Loans are generally placed on nonaccrual status upon becoming 90 days past due. At the time a loan is placed on nonaccrual status, the accrued but uncollected interest receivable is reversed and accounted for on a cash basis or cost recovery basis, until qualifying for return to accrual status.

	As of March 31, 2023	As of December 31, 2022
	(dollars in thousands)	
Loans on nonaccrual:		
Recreation	$ 4,653	$ 7,243
Home Improvement	$ 441	$ 579
Medallion	$ 1,764	$ —
Other	$ 1,731	$ 1,736
Total	$ 8,589	$ 9,558
Troubled debt restructured loans:		
Recreation	$ —	$ 2,128
Home Improvement	$ —	$ —
Medallion	$ —	$ 11,179
Other	$ —	$ —
Total	$ —	$ 13,307
Other repossessed inventory - Recreation	$ 1,461	$ 1,376
Other repossessed inventory - Medallion	$ 8,149	$ 9,005
Other assets held in bankruptcy	$ 1,800	$ 1,800
Total nonperforming assets	$ 19,999	$ 35,046
Asset Quality Ratios:		
Total gross nonaccrual loans to total loans	0.45%	1.23%
Total nonperforming assets to total assets	0.97%	1.80%
Allowance for credit losses to gross nonaccrual loans	764.52%	274.56%
Allowance for credit losses to total loans	3.48%	3.38%

Our repossessed assets as of March 2023 and December 2022 were $9.6 million and $10.4 million, respectively. The decrease was driven by the liquidation of repossessed Medallion and Recreation assets.

Delinquencies

Loan delinquencies of 30 days or more as a percentage of period-end loan balances outstanding decreased to 2.30% as of March 2023, compared to 3.15% as of December 2022. The 85-basis-point decrease in the year ended March 2023 was driven by a decrease in Medallion loan portfolio size following structured legal settlements and charge-offs, and decreases in delinquencies for the Recreation and Home Improvement loan portfolios.

	Current	30-59	60-89	90+	Total Gross Loans
			(in thousands)		
As of March 31, 2023					
Recreation	$ 1,135,968	$ 26,576	$ 7,859	$ 4,211	$ 1,174,614
Home Improvement	667,639	3,073	936	441	672,089
Medallion	1,379	—	385	—	1,764
Other	3,501	—	—	—	3,501
Total	$ 1,808,487	$ 29,649	$ 9,180	$ 4,652	$ 1,851,968
As of December 31, 2022					
Recreation	$ 1,095,073	$ 31,781	$ 11,877	$ 7,365	$ 1,146,096
Home Improvement	623,776	3,266	1,256	579	628,877
Medallion	9,884	17	393	885	11,179
Other	2,308	—	—	—	2,308
Total	$ 1,731,041	$ 35,064	$ 13,526	$ 8,829	$ 1,788,460

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans that we determine are uncollectible, net of recovered amounts. For loans with tangible collateral that we repossess with intent to sell, charge-offs are also net of the estimated fair value of that collateral minus disposition costs. We exclude accrued and unpaid finance charges and fees from recorded charge-off amounts. Instead, charged-off and recovered finance charges and fees are included in interest and fees on loans.

Charge-offs are recorded as a reduction to the allowance for loan losses, and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in other expense in our statements of comprehensive income.

	Three months ended March 31,	
	2023	2022
Recreation	3.33%	1.07%
Home Improvement	0.80%	0.55%
Medallion	15.54%	(23.17%)
Other	(1.33%)	(1.03%)

Our net charge-offs during the three months ended March 2023 increased to $11.4 million, compared to $2.6 million in the three months ended March 2022. The increase in net charge-offs was due to increases in charge-offs in all loan portfolios, the Recreation loan increase due in part to a change in practice to charge off loans to borrowers in bankruptcy, and the Medallion loan increase due to structured legal settlements with borrowers. We recorded $0.3 million in total net Medallion loan charge-offs for the three months ended March 2023. We recorded $(0.6) million in total net Medallion loan charge-offs for the three months ended March 2022.

Allowance for Credit Losses

The allowance is maintained at a level estimated by management to absorb probable credit losses inherent in the loan portfolios and is based on management's continuing evaluation of the portfolio, the related credit characteristics, and macroeconomic factors affecting the portfolios. As of March 2023 and December 2022 our allowance totaled $65.7 million and $61.6 million, which represented 3.48% and 3.38% of total loans, respectively. The increase in the allowance for loan losses as of March 2023 was primarily driven by the transition to the CECL methodology, increased losses in the Recreation and Home Improvement portfolios, Recreation and Home Improvement loan portfolio growth, and partially offset by a smaller Medallion loan portfolio allowance.

For a summary of our accounting methodologies relating to the allowance for credit losses, see the Allowance for Credit Losses section of our significant accounting policies in "Note 1. Organization and summary of significant accounting policies" in the unaudited financial statements included elsewhere in this Form 10-Q.

	As of March 31, 2023				As of December 31, 2022			
	Loan Amount	% of Allowance	Allowance Amount	Allowance as a % of Loan Amount	Loan Amount	% of Allowance	Allowance Amount	Allowance as a % of Loan Amount
	(dollars in thousands)							
Loan receivables:								
Recreation	$1,213,380	64.28%	$ 49,938	4.12%	$1,183,512	64.93%	$ 41,966	3.55%
Home Improvement	669,642	35.48	14,656	2.19	626,398	34.37	11,340	1.81
Medallion	1,104	0.06	1,041	94.29	10,519	0.58	8,298	78.89
Other	3,501	0.18	26	0.74	2,308	0.12	27	1.17
Total	$1,887,627	100.00%	$ 65,661	3.48%	$1,822,737	100.00%	$ 61,631	3.38%

	Three months ended March 31,	
	2023	2022
Beginning balance - ACL	$ 61,630	$ 53,383
CECL Transition Amount upon ASC 326 adoption	$ 11,556	$ —
Balance as of January 1, 2023	$ 73,186	
Charge-offs:		
Recreation	12,590	5,066
Home Improvement	1,914	1,060
Medallion	3,593	—
Other	—	—
Total charge-offs	$ 18,097	$ 6,126
Recoveries:		
Recreation	$ 2,772	$ 2,467
Home Improvement	632	439
Medallion	3,299	643
Other	10	5
Total recoveries	$ 6,713	$ 3,554
Net charge-offs	$ 11,384	$ 2,572
Provision	$ 3,859	$ 2,144
Ending balance - ACL	$ 65,661	$ 52,955
Ratios:		
ACL to total loans	3.48%	3.55%
Net charge-offs to average loans	2.49%	0.72%

Funding, Liquidity and Capital Resources

Our funding, liquidity and capital policies are designed to ensure that the Bank has the liquidity and capital resources to support our daily operations, our expected business growth, potential risks associated with our lending activities, and our regulatory and policy requirements in a cost-effective and prudent manner through expected and unexpected market environments. The table below presents the components of our sources of funding:

	For the three months ended March 31, 2023 2023			For the twelve months ended December 31, 2022 2022		
	Average Balance	%	Average Rate	Average Balance	%	Average Rate
	(dollars in thousands)					
Interest-bearing deposit accounts	$ 1,642,177	100.00%	2.12%	$1,441,308	100.00%	1.57%
Borrowings	—	—	—	—	—	—
Total interest-bearing liabilities	$ 1,642,177	100.00%	2.12%	$1,441,308	100.00%	1.57%

The increase in the average interest rate on interest-bearing deposits from 1.57% for the year December 2022 to 2.12% for the year ended March 2023 was primarily due to increases in market rates for deposits.

Deposits

We obtain substantially all of the funding for our business through time certificates of deposit in amounts less than or equal to the current FDIC deposit insurance coverage limit of $250,000, originated nationally through a variety of deposit broker relationships or through internet listing services as described further below. Under our banking charter, we are not authorized to accept demand deposits, and our depositors generally cannot withdraw their deposits prior to maturity. Brokered deposits offer a low-cost source of funding compared to credit facilities and other funding sources utilized by non-bank lending businesses. We monitor the term, maturity schedule and concentrations of our brokered deposits to manage our funding risk, and we regularly assess the Bank's liquidity position through stress tests. As of March 2023 and December 2022, the weighted average maturity of our time certificates of deposit was 638 days and 680 days, respectively. The decrease as of March 2023 compared to December 2022 was due to a shift from asset sensitivity toward a neutral position as market rates increased, and an increase in our on-balance sheet liquidity using short-term deposits. We maintain a minimum of ten active deposit broker relationships, which is intended to ensure that our funding is stable and consistent. We do not currently originate deposits directly from retail customers and we have no branch operations.

Our ability to use brokered deposits to fund our business is subject to the capitalization requirements set forth in the FDIC's regulatory framework. A bank may not accept or renew brokered deposits unless it is "well-capitalized," or it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" and accepts or renews brokered deposits is subject to additional restrictions on the interest rates it may offer. There are no such restrictions under the FDIA on a bank that is "well-capitalized." See "Supervision and Regulation—Brokered Deposits" in our Annual Report on Form 10-K for the year ended December 31, 2022. As described below, we seek to maintain our capital ratios well above the quantitative thresholds for well-capitalized status.

In October 2020, we began to originate time deposits through internet listing services. These deposits are from other financial institutions. As of March 2023 and December 2022, we had $10.6 million and $12.4 million, respectively, in listing service deposits. We believe that listing service deposits will aid in managing our liquidity position.

Short-Term Borrowings

Our short-term borrowings consist of unsecured lines of credit offered by our correspondent banks, and a secured Federal Reserve discount window line of credit, to address temporary funding needs when it is not feasible to acquire time certificates of deposit through our network of brokers. As of March 2023 and December 2022, we had two active unsecured lines of credit with credit limits of $40.0 million and $35.0 million, plus a secured Federal Reserve discount line of credit with credit availability of $13.6 million, giving us a total of $88.6 million in short-term borrowing capacity. See "Note 16. Subsequent Events" in the unaudited financial statements included elsewhere in this Form 10-Q.

As of March 2023, and December 2022, there were no drawn amounts on these lines of credit. We used none of our facilities in the quarter ended March 2023. One unsecured facility operates as an overdraft sweep with our main operating account. Although we have tested this facility in the past, we did not use it in the quarter ended March 2023.

Liquidity

We seek to ensure that we have adequate liquidity to sustain business operations, fund asset growth and meet regulatory expectations under normal and stress conditions. We maintain policies outlining the overall framework and general principles for managing liquidity risk, which is the responsibility of our Asset and Liability Management Committee. Those policies include a general strategy of matching maturities of deposits and loans, maintaining cash and securities at a minimum of 5% of total assets, and ensuring consistent access to a variety of funding sources. On a regular basis, we perform liquidity stress testing and contingency planning as part of our liquidity management process. During such tests, we evaluate a range of stress scenarios including Bank-specific and systemic events that could impact funding sources and our ability to meet liquidity needs.

We maintain a portfolio of cash and investment securities for liquidity purposes, which as of March 2023 and December 2022 had $161.8 million and $122.6 million, respectively, of cash and cash equivalents and agency residential mortgage-backed securities. The increase in cash and investments as of March 2023 compared to December 2022 was due to normal growth associated with our increasing asset size and management's decision to hold additional liquidity during a time of banking system stress. As additional sources of liquidity, as of March 2023 and December 2022, we had an aggregate of $88.6 million and $75.0 million, respectively, of undrawn capacity in credit facilities from private lenders and the Federal Reserve. See "Short-Term Borrowings" and "Note 16. Subsequent Events" in the unaudited financial statements for details about these credit facilities.

As a general matter, our investments are highly liquid, giving us the ability to readily convert them to cash. The level and composition of our liquidity portfolio may fluctuate based upon the level of expected maturities of our funding sources as well as operational requirements and market conditions.

Capital and Payment of Dividends

As a Utah state-chartered industrial bank, we are required to maintain minimum levels of regulatory capital. These standards generally are as stringent as the comparable capital requirements imposed on national banks. We are also subject to FDIC regulations that apply to every FDIC-insured depository institution, a system of mandatory and discretionary supervisory actions that generally become more severe as the capital levels of an individual institution decline. The regulations establish five capital categories for purposes of determining our treatment under these prompt corrective action ("PCA") provisions: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized."

In connection with the formation of the Bank, we agreed with the FDIC that we would maintain a Tier 1 leverage ratio of at least 15%, which is well in excess of the 5% threshold for well-capitalized status.

We are currently and have historically been capitalized in excess of minimum regulatory requirements. As of March 2023, our common equity Tier 1, Tier 1 and Total risk-based capital ratios were 13.1%, 16.6% and 17.9%, respectively, and we had a Tier 1 capital to total assets leverage ratio of 16.4%. As of December 2022, our common equity Tier 1, Tier 1 and Total risk-based capital ratios were 12.8%, 16.5% and 17.7%, respectively, and we had a Tier 1 capital to total assets leverage ratio of 16.2%.

	As of March 31, 2023		As of December 31, 2022		Minimum Regulatory Requirements(1)	Well-Capitalized Requirements
	Amount	Ratio	Amount	Ratio		
	(dollars in thousands)					
Tier 1 leverage capital	$ 323,671	16.4%	$ 310,837	16.2%	4.0%	5.0%
CET-1 risk-based capital	$ 254,883	13.1%	$ 242,050	12.8%	7.0%	6.5%
Tier 1 risk-based capital	$ 323,671	16.6%	$ 310,837	16.5%	8.5%	8.0%
Total risk-based capital	$ 348,536	17.9%	$ 334,913	17.7%	10.5%	10.0%

(1) As a condition to receipt of FDIC insurance, we entered into the 2003 Capital Maintenance Agreement requiring us to maintain a 15% Tier 1 leverage ratio. This level of capital far exceeds the minimum requirement for capital adequacy purposes and is above the threshold for well-capitalized status under the FDIC's regulatory framework.

Failure to meet minimum capital requirements can result in the initiation of certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a material adverse effect on our business, results of operations and financial condition. In addition, because we obtain substantially all of the funding for our businesses from brokered certificates of deposit, failure to maintain "well-capitalized" status would have a material adverse effect on our business, results of operations and financial condition.

During the year ended December 2022, we paid total dividends on the common stock of $20.0 million to MFIN. In January 2023, the Bank's Board of Directors declared a $5.0 million cash dividend on the common stock that was paid on February 15, 2023. On April 27, 2023, the Bank's Board of Directors declared a $5.0 million cash dividend on the common stock that is payable on May 15, 2023.

On January 26, 2023, the Bank's Board of Directors declared a quarterly cash dividend of $0.50 per share on the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, to shareholders of record at the close of business on March 15, 2023, which was paid on April 3, 2023. On April 27, 2023, the Board of Directors declared a quarterly cash dividend of $0.50 per share on the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F. The dividend is payable on July 3, 2023, to shareholders of record at the close of business on June 15, 2023.

We paid dividends on our Series E Preferred Stock issued to the U.S. Treasury under the Small Business Lending Fund Program of $592,000 for the three months ended March 2023 and 2022. The dividend rate of 9% will remain stable for so long as our Series E Preferred Stock remains outstanding. In addition, if the Bank is not "publicly traded" within the meaning of our Articles, then so long as any share of the Series E Preferred Stock remains outstanding, no dividend or distribution may be declared or paid on our common equity, any other shares of junior stock or parity stock. So long as our shares of Series F Preferred Stock are listed on The Nasdaq Capital Market or another securities exchange, we will not be negatively impacted by that restriction.

Regulatory Capital Requirements

We are subject to risk-based and leverage-based capital ratio requirements under the U.S. Basel III capital rules adopted by the federal banking regulators.

The rules establish minimum risk-based capital ratios and prompt corrective action thresholds that require banking organizations to maintain a minimum common equity Tier 1 ("CET1") capital ratio of 4.5%, a Tier 1 capital ratio of 6.0%, a total capital ratio of 8.0% and a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average consolidated assets for the quarter.

A capital conservation buffer of 2.5% above the risk-based capital ratios is required for banking institutions to avoid restrictions on their ability to make capital distributions, including paying dividends. As of March 2023, our risk-based capital ratios were above the regulatory minimums that incorporated the 2.5% capital conservation buffer.

Recently Issued Accounting Standards

For discussion of accounting standards recently issued but not yet effective, refer to "Note 1. Organization and Summary of Significant Accounting Policies" in the annual unaudited financial statements included elsewhere in this Form 10-Q.

Non-GAAP Financial Measures

This Form 10-Q presents non-GAAP financial measures, in addition to GAAP financial measures, to provide investors with additional information. The adjustments to reconcile from the applicable GAAP financial measures to the non-GAAP financial measures are presented in the following table. We consider these adjustments to be relevant to ongoing operating results and provide a meaningful basis for period-to-period comparisons. We use these non-GAAP financial measures to assess our performance and for presentations of our performance to investors. We believe that presenting these non-GAAP financial measures permits investors to assess our performance on the same basis as that applied by our management and the financial services industry.

Non-GAAP financial measures have inherent limitations and are not necessarily comparable to similar financial measures that may be presented by other financial services companies. Although non-GAAP financial measures are frequently used to evaluate a company, they have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of results reported under GAAP.

Pre-Provision Net Revenue

PPNR is calculated by excluding our provision for credit losses from our pre-tax income for the relevant period. PPNR enables management and others to assess the performance of the Bank exclusive of the effects of the provision for credit losses and the ability of the Bank to generate earnings sufficient to cover credit losses. We believe PPNR is a useful performance indicator because it will facilitate investor comparisons of the Bank's performance for periods before and after our adoption of CECL on January 1, 2023, particularly in light of the potentially greater volatility in the allowance and provisions for credit losses under CECL.

For the three months ended March 31,	2023	2022
GAAP Net Income	$ 21,425	$ 18,784
Plus: Provision for credit losses	3,859	2,144
Plus: Income tax expense	7,765	6,701
Pre-provision net revenue	$ 33,049	$ 27,629

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the sensitivity of income, fair values and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market prices and rates. The primary risk to which we are exposed is interest rate movement inherent in our lending and deposit-taking activities.

The principal objective of asset/liability management is to manage the sensitivity of net income to changes in interest rates. Asset/liability management is governed by policies approved by our Board. Day-to-day oversight of this function is performed by our Asset and Liability Management Committee. Management and our Board, on an ongoing basis, review our overall interest rate risk position and strategies.

Interest Rate Risk Management

Our Asset and Liability Management Committee seeks to manage our interest rate risk by structuring our balance sheet to maximize net interest income while maintaining an acceptable level of risk exposure to changes in market interest rates. We analyze interest rate risk using a combination of net interest income and balance sheet valuation simulations, shocks to those simulations, and scenario and market value analyses. We actively monitor the level of exposure with the goal that movements in interest rates would not adversely and unexpectedly negatively affect future earnings. We use net interest income sensitivity analysis as our primary metric to measure and manage the interest rate sensitivities of our loan and investment securities portfolios.

We prepare forward-looking forecasts of net interest income, which take into consideration anticipated future business growth, asset/liability positioning and interest rates based on the implied forward curve. Simulations are used to assess changes in net interest income in multiple interest rate scenarios relative to the baseline forecast. The changes in net interest income relative to the baseline are defined as the sensitivity. Our simulation incorporates contractual cash flows and repricing characteristics for all assets and liabilities and incorporates the effects of changing interest rates on the prepayment and attrition rates of certain assets and liabilities. The analysis is highly dependent upon a variety of assumptions including assumptions about new business volumes, loan and investment prepayment rates, deposit rate floors, interest rate curves and economic conditions. These scenarios include both parallel and non-parallel rate shocks. Our simulation does not assume any specific future actions are taken to mitigate the impacts of changing interest rates.

If interest rates changed in parallel by the amounts below	The following estimated percentage increase/(decrease) to net interest income would result at March 31, 2023	The following estimated percentage increase/(decrease) to net interest income would result at March 31, 2022
Down 100 basis points	(0.49)%	(1.22)%
Up 100 basis points	0.53%	1.29%
Down 200 basis points	(0.95)%	(2.41)%
Up 200 basis points	1.07%	2.63%
Down 300 basis points	(1.10)%	(4.97)%
Up 300 basis points	1.61%	4.01%
Down 400 basis points	(0.67)%	(7.83)%
Up 400 basis points	1.73%	5.41%

The decrease in net interest income variance in the March 31, 2023 simulation compared to the March 31, 2022 simulation is largely due to increases in market interest rates during the twelve months following March 31, 2022 and the Bank's return to a more neutral gap position as of March 31, 2023. Assets and liabilities are now expected to reprice together and thus experience similar movements under interest rate shock scenarios.

We also evaluate the impact of interest rate risk by utilizing Economic Value of Equity (“EVE”) modeling. This analysis measures the present value of all estimated future cash flows of the Bank over the estimated remaining life of the balance sheet. EVE is calculated as the difference between the market value of assets and liabilities. The EVE calculation utilizes only the current balance sheet, and therefore does not factor in any future changes in balance sheet size, balance sheet mix, yield curve relationships or product spreads, which may mitigate the impact of any interest rate changes.

Management examines the effect of interest rate changes on EVE. The sensitivity of EVE to changes in interest rates is a measure of longer-term interest rate risk and highlights the potential capital at risk due to adverse changes in market interest rates.

If interest rates changed in parallel by:	The following estimated percentage increase/(decrease) to EVE would result March 31, 2023	The following estimated percentage increase/(decrease) to EVE would result March 31, 2022
Down 100 basis points	3.29%	1.23%
Up 100 basis points	(2.96)%	(0.87)%
Down 200 basis points	7.06%	3.53%
Up 200 basis points	(5.65)%	(1.47)%
Down 300 basis points	11.94%	12.51%
Up 300 basis points	(8.15)%	(1.86)%
Down 400 basis points	17.93%	21.76%
Up 400 basis points	(8.64)%	(2.08)%

The change in EVE variance in the March 31, 2023 simulation compared to the March 31, 2022 simulation is largely due to market rate increases, management's effort to shift the balance sheet to a neutral interest rate risk position, and slowing prepayment speeds of consumer loans. The change in present value of the estimated future cash flows of liabilities in the March 31, 2022 simulation was constrained by rates being within 200 basis points of their floors in down scenarios. The market rate increases between March 31, 2022 and March 31, 2023 resulted in decreased loan prepayment speeds, which increased EVE variance as of March 31, 2023 because cash flows on assets take longer to be received, reducing their present value.

Since the assumptions used are inherently uncertain, we cannot predict precisely the effect of higher or lower interest rates on net interest income or EVE. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes, the difference between actual experience and the assumed volume, characteristics of new business, behavior of existing positions and changes in market conditions and management strategies, among other factors.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, and have concluded that they are effective as of March 2023 to provide reasonable assurance that information required to be disclosed by the Bank in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Bank's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control

As required by Rule 13a – 15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated our internal control over financial reporting to determine whether any changes occurred during the quarter ended March 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, and have concluded that there have been no changes that occurred during the quarter ended March 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently involved in various legal proceedings incidental to the ordinary course of our business, including collection matters with respect to certain loans. We intend to vigorously defend any outstanding claims and pursue our legal rights. In the opinion of our management and based upon the advice of legal counsel there is no proceeding pending, or to the knowledge of management threatened, which in the event of an adverse decision could result in a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 6. EXHIBITS

EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MEDALLION BANK

Date: May 15, 2023

By: /s/ Donald S. Poulton

Donald S. Poulton

President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ D. Justin Haley

D. Justin Haley

Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATIONS
Certification of Donald S. Poulton

I, Donald S. Poulton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Medallion Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) disclosed in this report any change in registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023

By: /s/ Donald S. Poulton

Donald S. Poulton
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS
Certification of D. Justin Haley

I, D. Justin Haley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Medallion Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023

By: /s/ D. Justin Haley

D. Justin Haley
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 USC SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Medallion Bank (the “Bank”) for the quarter ended March 31, 2023 as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: May 15, 2023

By: /s/ Donald S. Poulton

Donald S. Poulton
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 USC SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Medallion Bank (the “Bank”) for the quarter ended March 31, 2023 as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: May 15, 2023

By: /s/ D. Justin Haley

D. Justin Haley
Executive Vice President and
Chief Financial Officer