
FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2019

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
(State of
Incorporation)

32-0052486
(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:

<u>Title of each class</u>	<u>Trading Symbols</u>	<u>Name of each exchange on which registered</u>
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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

No voting or non-voting common equity is held by non-affiliates of the registrant.

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 March 30, 2020 was 1,000,000.

MEDALLION BANK
2019 FORM 10-K ANNUAL REPORT

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K 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. 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,” “annualized” 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 “Risk Factors,” beginning on page 12 of this Form 10-K or the following:

- The concentration of our business in consumer lending, which carries a high risk of loss and could be adversely affected by an economic downturn;
- 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;
- Changes in the taxi and for-hire vehicle industries, which have resulted in increased competition and have resulted in losses in our Medallion loan portfolio;
- Decreases in the value of our Medallion loan collateral;
- Our dependence on our senior management team for our future success;
- The sufficiency of our allowance for loan losses to cover losses on our loans;
- Competition with other lenders;
- Our access to sources of liquidity and capital to address our liquidity needs;
- Our determinations with respect to sales of loans we may conduct and the impact of such sales on our retained portfolios;
- A reduction in demand for our products and failure by us to adapt to such reduction;
- Our pursuit of new business initiatives and strategies, including our pursuit of our Strategic Partnership Program;
- Outbreaks of disease or similar public health threats, including the COVID-19 pandemic;
- Changes in laws, regulations, or policies that apply to us; and
- The one-time and 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-K. 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

ITEM 1. OUR BUSINESS

General

We are a Utah-chartered, FDIC-insured industrial bank headquartered in Salt Lake City, Utah. We specialize in providing consumer loans for the purchase of RVs, boats and trailers and to finance home improvements such as replacement windows and roofs. Formed in 2002, we are a wholly owned subsidiary of Medallion Financial Corp. ("MFIN"), a commercial finance company.

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 developed a foothold in this niche RV/marine finance business, which is now the Bank's 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.

Prior to September 2014, we originated loans to finance the purchase of taxi medallions (which we refer to as our "Medallion Lending" segment and our "Medallion" loans) but have since transitioned away from this aspect of our business and reinforced our strategic focus on our growing consumer lending segments.

As of December 2019, we had total assets of \$1.2 billion, including a net loan portfolio of \$1.0 billion, equity capital of \$227.1 million and pre-tax income for the year ended December 2019 of \$26.0 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% 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-K, 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-K" are to our Annual Report on Form 10-K for the year ended December 31, 2019. All references to 2019, 2018, 2017, and 2016 refer to our years ended, or the dates, as the context requires, December 31, 2019, December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

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

Our Business

Our primary business is consumer lending, 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 December 2019, our Recreation and Home Improvement loan portfolios together were \$951.6 million, representing 79.8% of our total assets, with a weighted average yield (which is equal to gross interest income minus amortization of loan origination costs) of 13.9% for the year ended December 2019. We work directly with dealerships, contractors and FSPs to offer quality financing for their customers, 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). Our third business segment, Medallion Lending, is no longer part of our long-term strategy. Our portfolio of Medallion loans has been steadily decreasing in size over the past five years, declining \$259.8 million, or 71.0%, since December 2014.

We make consumer loans to borrowers in all 50 U.S. states, plus the District of Columbia, and work with dealerships in 44 states in connection with our Recreation Lending segment and with contractors in 44 states in connection with our Home Improvement Lending segment. We have dedicated, regionally focused teams of dealer relationship managers and sales managers that provide dealers and contractors with the support and services they require to meet the needs of their customers.

In addition to our current activities, which we describe further below, in July 2019, we announced a new Strategic Partnership Program, through which the Bank will partner with non-banks offering loans and other financial services to their customers. The Strategic Partnership Program is in the early stages of development, and, on March 11, 2020, we signed an agreement with our first

Strategic Partnership Program partner. We expect to begin associated activities during 2020. Those activities are expected to be initially limited to originating loans or other receivables facilitated by our partners and selling those loans or receivables to our partners or other third parties without recourse within a specified period of origination, such as three business days. Revenues are expected to be derived primarily from contracted program fees paid to us by our partners and interest income earned while the loans or receivables remain on our books, offset by any transaction fees paid by us to our partners for their role in processing loan applications. We have incurred expenses associated with the development of the Strategic Partnership Program, and we expect to incur increased compliance and other costs associated with the Strategic Partnership Program, including as a result of new hires in dedicated program management and compliance roles. The scope of our activities may change over time as we further develop this line of business.

Recreation Lending. Our Recreation Lending segment is a high-growth business focused on originating Recreation loans 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 \$699.5 million, or 65.9%, of our loan portfolio as of December 2019. The loans are secured primarily by RVs, boats and trailers with a small proportion of loans secured by other collateral such as autos, motorcycles and boat motors. The weighted average yield of our Recreation loan portfolio was 15.38% for the year ended December 2019. During the year ended December 2019, we originated \$301.4 million of Recreation loans.

Recreation Lending operates like a traditional indirect auto finance business. We maintain non-exclusive relationships with approximately 3,200 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 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. Approximately 43% of Recreation Lending's new loan originations in the year ended December 2019 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 customer financing for window, siding and roof replacement, swimming pool and solar system installation, 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 payments when it is most convenient.

Home Improvement loans represented \$252.1 million, or 23.7%, of our loan portfolio as of December 2019. The loans are secured by the personal property installed, and the security interest for some of these loans is perfected with a UCC fixture filing. The weighted average yield of the Home Improvement loan portfolio was 9.39% for the year ended December 2019. During the year ended December 2019, we originated \$142.1 million of Home Improvement loans.

Home Improvement Lending operates in a manner similar to Recreation Lending, with a few key differences. We maintain a smaller number of non-exclusive relationships; the Bank currently has relationships with approximately 700 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., information technology and extended operating hours) and additional support for the salesperson throughout the financing process. Approximately 41.5% of Home Improvement Lending's new loan originations in the year ended December 2019 were from our top ten contractor and FSP relationships. 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.

Medallion Lending. Until September 2014, we originated loans to finance the purchase of taxi medallions in connection with MFIN's business. However, we have since transitioned away from this aspect of our business, though we continue to refinance

existing Medallion loans in our portfolio as they mature. Our Medallion loan portfolio declined 71.0% from \$368.2 million as of December 2014 to \$108.4 million as of December 2019.

Medallion Servicing Corp. ("MSC"), an affiliate and wholly owned subsidiary of MFIN, is our Medallion loan servicer and maintains offices in New York and Chicago, which are the jurisdictions of greatest historical Medallion loan concentration at the Bank.

Other. Our remaining operations, which are reported in our "Other" segment in the financial statements contained elsewhere in this report, include loans that are not Recreation, Home Improvement or Medallion loans, as well as cash, investments and net non-interest earning assets. Other loans represented \$1.8 million, or 0.17%, of the Bank's loan portfolios as of December 2019.

Competition

Banks, credit unions, and finance companies (both traditional and technology-driven) compete with us in originating Recreation and Home Improvement loans. Many of these competitors have greater resources than we do and certain competitors are subject to less restrictive regulations than us. As a result, we cannot assure you that we will be able to compete successfully.

Due to the non-prime focus of the business, competition for our Recreation Lending segment is largely from a small number of competitors. Home Improvement Lending competes against a much larger number of financing sources for prime credit loans, including a growing number of technology-enabled direct lenders. When the consumer lending market is active and expanding, competitors emerge and reduce our market share in both segments. During recessions, historically, competitors reduce their activities in the non-prime portion of the market and some fail or become non-competitive in the prime portion of the market. In these circumstances, our market share in each segment is expected to grow. Management works to remain competitive in each segment but resists the pressure to make product or pricing changes that do not support our long-term value orientation.

Employees

As of December 2019, we employed 82 persons. We believe that relations with all our employees are good.

SUPERVISION AND REGULATION

The following discussion is intended only to summarize some of the significant statutes and regulations that affect us and the banking industry, and therefore is not a comprehensive survey of the legal and regulatory framework applicable to the Bank.

Overview

We are subject to extensive federal and state banking laws, regulations, and policies that are intended primarily for the protection of depositors, the Deposit Insurance Fund, and the banking system as a whole; not for the protection of our other creditors and shareholders. Under our banking charter, we are authorized to make consumer and commercial loans, and may accept all FDIC-insured deposits other than demand deposits (checking accounts). As a state-chartered non-member bank with FDIC-insured deposits, we are examined, supervised and regulated by the FDIC and the Utah Department of Financial Institutions ("Utah DFI"). The statutes enforced by, and regulations and policies of, these agencies affect almost all aspects of our business, including by prescribing permissible types of loans and investments, the amount of required capital, the permissible scope of our activities and various other requirements. If our regulators were to determine that we have violated banking laws and regulations, including by engaging in unsafe and unsound practices, we could be subject to enforcement and other regulatory actions, which could have an adverse effect on our business, results of operations and financial condition.

Capital Standards

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.

Under the risk-based capital standards, our assets, exposures and certain off-balance sheet items are assigned to broad risk categories, each with designated weights, and the resulting capital ratios represent capital as a percentage of total risk-weighted assets. The minimum capital ratios applicable to us are as follows:

- **CET1 Risk-Based Capital Ratio**, equal to the ratio of Common Equity Tier 1 ("CET1") capital to risk-weighted assets. CET1 capital primarily includes common shareholders' equity subject to certain regulatory adjustments and deductions, including with respect to goodwill, intangible assets, certain deferred tax assets and accumulated other comprehensive income. Certain of these adjustments and deductions are subject to phase-in periods that began on January 1, 2015 and,

for non-advanced approaches banking organizations such as us, will end upon effectiveness of the simplifications rule described below in 2020. The minimum CET1 risk-based capital ratio requirement is 4.5%.

- **Tier 1 Risk-Based Capital Ratio**, equal to the ratio of Tier 1 capital to risk-weighted assets. Tier 1 capital primarily consists of CET1 capital and perpetual preferred stock. The minimum Tier 1 risk-based capital ratio requirement is 6%.
- **Total Risk-Based Capital Ratio**, equal to the ratio of total capital, including CET1 capital, additional Tier 1 capital and Tier 2 capital, to risk-weighted assets. Our Tier 2 capital primarily includes allowance for loan and lease losses up to 1.25% of our risk-weighted assets. The minimum total risk-based capital ratio requirement is 8%.
- **Tier 1 Leverage Ratio**, equal to the ratio of Tier 1 capital to quarterly average assets (net of goodwill, certain other intangible assets and certain other deductions). The minimum Tier 1 leverage ratio requirement is 4%.

The prompt corrective action framework, which generally applies to FDIC-insured depository institutions, including us, also includes capital requirements we must satisfy in order to, among other things, be able to accept brokered deposits without limitations. See “Prompt Corrective Action” and “Brokered Deposits” below.

In addition to meeting the minimum capital requirements, under the U.S. Basel III capital rules we must also maintain the required capital conservation buffer of 2.5% to avoid becoming subject to restrictions on capital distributions (including dividends on our preferred stock) and certain discretionary bonus payments to management. The capital conservation buffer is calculated as a ratio of CET1 capital to risk-weighted assets, and it effectively increases the required minimum risk-based capital ratios.

The table below shows the capital requirements we are required to maintain:

	Minimum U.S. Basel III Regulatory Capital Ratio Plus Capital Conservation Buffer
CET1 risk-based capital ratio	7.0%
Tier 1 risk-based capital ratio	8.5%
Total risk-based capital ratio	10.5%

For purposes of calculating the denominator of the three risk-based capital ratios, the assets of covered banking organizations are given risk weights that, under the U.S. Basel III capital rules, range from 0% to 1,250%, depending on the nature of the asset. Most of our loans are assigned a 100% risk weight, with loans that are 90 days or more past due or on nonaccrual assigned a 150% risk weight. In addition, direct obligations of the U.S. Department of the Treasury (“U.S. Treasury”) or obligations unconditionally guaranteed by the U.S. government have a 0% risk weight, while general obligation claims on states or other political subdivisions of the United States are assigned a 20% risk weight, except for municipal or state revenue bonds, which have a 50% risk weight.

The U.S. Basel III capital rules provide for limited recognition in CET1 capital, and deduction from CET1 capital above certain thresholds, of three categories of assets: (i) deferred tax assets arising from temporary differences that cannot be realized through net operating loss carrybacks (net of related valuation allowances and of deferred tax liabilities), (ii) mortgage servicing assets (net of associated deferred tax liabilities) and (iii) investments in more than 10% of the issued and outstanding common stock of unconsolidated financial institutions (net of associated deferred tax liabilities). In July 2019, the federal banking regulators issued a final rule designed to simplify the capital treatment of those categories of assets for banking organizations, such as us, that are not subject to the advanced approaches in the U.S. Basel III capital rules. The provisions of the final rule relating to the threshold deductions will become effective for us on April 1, 2020. Various technical amendments in the rule became effective as of October 1, 2019.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms. Among other things, these standards revise the Basel Committee’s standardized approach for credit risk and provide a new standardized approach for operational risk capital. The Basel Committee’s standards will generally be effective on January 1, 2022. As with all standards proposed by the Basel Committee, the December 2017 standards are not effective in any jurisdiction until rules implementing such standards have been implemented by the relevant regulators in such jurisdiction. Following the release of these standards, the federal banking regulators stated that the standards are intended to achieve various objectives with regard to internationally active banks and that the regulators will consider how to apply the standards in the United States.

Federal banking regulators published a final rule, effective as of April 1, 2019, permitting banking organizations to phase in any adverse day-one regulatory capital effects of the adoption of ASU 2016-13 (referred to as the current expected credit loss model or CECL) over a period of three years. For additional information on ASU 2016-13, see “Note 1. Organization and summary of significant accounting policies” in the annual audited financial statements included elsewhere in this Form 10-K.

The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (“EGRRCPA”) required the federal bank regulators to adopt regulations to implement an exemption from the U.S. Basel III capital rules for smaller banking organizations, including us, that maintain a “Community Bank Leverage Ratio” of at least 8% to 10%. Specifically, the EGRRCPA provides that if any depository institution or depository institution holding company with less than \$10 billion in total consolidated assets maintains tangible equity in excess of this leverage ratio, as implemented by the federal bank regulators, it would be deemed to be in compliance with (i) the leverage and risk-based capital requirements promulgated by the federal banking agencies; (ii) in the case of a depository institution, the capital ratio requirements to be considered “well-capitalized” under the federal banking agencies’ “prompt corrective action” regime; and (iii) “any other capital or leverage requirements” to which the depository institution or holding company is subject, unless the appropriate federal banking agency determines otherwise based on the particular institution’s risk profile.

The FDIC adopted a final rule, effective as of January 1, 2020, implementing the Community Bank Leverage Ratio. Under the rule, the Community Bank Leverage Ratio is the same as the Tier 1 Leverage Ratio under the Basel III capital rules and a qualifying small banking organization, such as us, that has less than \$10 billion in total consolidated assets and meets certain risk-based criteria can choose to apply the Community Bank Leverage Ratio framework if its Community Bank Leverage Ratio is greater than 9%. The Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020, directs the FDIC and other Federal banking regulators to decrease temporarily the Community Bank Leverage Ratio to 8%. We have not elected and currently do not expect to elect to apply the Community Bank Leverage Ratio framework but will continue to assess the framework and may choose to apply it in the future.

As a condition to receipt of FDIC insurance, we entered into a capital maintenance agreement with the FDIC (the “2003 Capital Maintenance Agreement”) requiring us to maintain a 15% leverage ratio (Tier 1 capital to average assets) and an adequate allowance for loan and lease losses and restricting the amount of Medallion loans that we may finance to three times our Tier 1 capital.

Prompt Corrective Action

We are 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. Pursuant to provisions of the Federal Deposit Insurance Act (“FDIA”), and related regulations with respect to prompt corrective action, the federal banking regulators must take “prompt corrective action” with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital categories: “well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” An insured depository institution’s capital category depends upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation.

	“Well-capitalized”	“Adequately capitalized”
CET1 risk-based capital ratio	6.5%	4.5%
Tier 1 risk-based capital ratio	8.0%	6.0%
Total risk-based capital ratio	10.0%	8.0%
Tier 1 leverage ratio	5.0%	4.0%

If a bank meets the quantitative thresholds for well-capitalized status provided above and is not subject to any written agreement, order or directive from the appropriate regulatory agency to meet and maintain a specific capital level, it will qualify as well-capitalized. Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our operations or financial condition. See “Brokered Deposits” below for additional information. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on our ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications. Pursuant to the 2003 Capital Maintenance Agreement, we have agreed that our capital levels will at all times meet or exceed the levels required for us to be considered well-capitalized under FDIC rules.

Brokered Deposits

We use brokered deposits to fund a substantial portion of our activities. Under the FDIA and related regulations, FDIC-insured institutions such as us may only accept brokered deposits without FDIC permission if they meet specified capital standards and are not subject to any written agreement, order or directive to meet and maintain a specific capital level, and are subject to restrictions with respect to the interest they may pay on deposits unless they are well-capitalized. In particular, the FDIA and the FDIC’s regulations prohibit an insured depository institution from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank’s normal market area or nationally (depending upon where the deposits are solicited), unless it is well-capitalized or is adequately capitalized and receives a waiver from the FDIC. A depository

institution that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates.

Pursuant to the 2003 Capital Maintenance Agreement, we have agreed that our capital levels will at all times meet or exceed the level required for us to be considered well-capitalized under FDIC rules. If we were no longer able to accept or renew brokered deposits as a result of failing to meet the requisite capital standards or as a result of being subject to a written agreement, order or directive to meet and maintain a specific capital level, there would be a material adverse effect on our business, financial condition, liquidity and results of operations. See “Risk Factors—Our use of brokered deposits for our deposit-gathering activities may not be available when needed. The inability to accept and renew brokered deposits would have a material adverse effect on our business, financial condition, liquidity and results of operations.”

Payment of Dividends

The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions that limit the amount available for such distribution depending upon earnings, financial condition and cash needs of the institution, as well as general business conditions. Insured depository institutions are also prohibited from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions, including dividends, if after such transaction the institution would be less than adequately capitalized.

Under Utah law, we may only declare dividends to our shareholders out of our net profits, after providing for all expenses, losses, interest and taxes accrued or due. Further, we are required to transfer to a surplus fund at least 10% of our net profits before dividends for the period covered by the dividend until the surplus fund reaches 100% of our capital stock. Any amount paid from our net earnings into a fund for the retirement of outstanding debt capital instruments or preferred stock for the period covered by the dividend will be considered an addition to our surplus fund if, upon the retirement of such instruments, the amount paid into the retirement fund for the period may be properly carried to our surplus fund.

The federal banking agencies also have authority to prohibit depository institutions from engaging in business practices that are considered unsafe or unsound, possibly including payment of dividends or other payments under certain circumstances even if such payments are not expressly prohibited by statute.

In addition, as discussed under “Capital Standards,” if our risk-based capital ratios do not satisfy the minimum risk-based requirements plus the capital conservation buffer, we will face graduated constraints on, among other things, capital distributions (including dividends on our preferred stock) based on the amount of the shortfall and the amount of our eligible retained income.

Safety and Soundness

The FDIA also implemented certain specific restrictions on transactions and required federal banking regulators to adopt overall safety and soundness standards for depository institutions related to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. These guidelines also prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. The federal banking agencies may require an institution to submit to an acceptable compliance plan as well as have the flexibility to pursue other more appropriate or effective courses of action given the specific circumstances and severity of an institution’s noncompliance with one or more standards. The FDIC may also terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Among other things, in addition to the restrictions on brokered deposits discussed above, the FDIA limits the interest rates paid on deposits by undercapitalized institutions and limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder or related interest.

Consumer Financial Protection

We are subject to a number of federal and state consumer protection laws that extensively govern our consumer lending businesses. These laws include, but are not limited to, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Electronic Fund Transfer Act and these laws’ respective state-law counterparts, as well as laws regarding unfair and

deceptive acts and practices. These federal and state laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices and subject us to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, and civil money penalties. Failure to comply with consumer protection requirements may also result in substantial reputational harm that could adversely affect our business.

Community Reinvestment Act of 1977

We are subject to certain requirements and reporting obligations under the Community Reinvestment Act ("CRA"). Under the CRA, we have an obligation, consistent with safe and sound operations, to help meet the credit needs of the market areas where we operate, which include low- and moderate-income individuals and communities. In connection with its examination of us, the FDIC is required to assess our CRA performance in the areas of lending, investments and services. The FDIC may take compliance with the CRA into account when regulating and supervising our other activities. The CRA also requires the agencies to take into account banks' records of meeting community credit needs when evaluating applications for, among other things, new branches or mergers. We received a rating of "Outstanding" in our most recently completed CRA examination.

In December 2019, the OCC and the FDIC issued a notice of proposed rulemaking intended to (i) clarify which activities qualify for CRA credit; (ii) update where activities count for CRA credit; (iii) create a more transparent and objective method for measuring CRA performance; and (iv) provide for more transparent, consistent, and timely CRA-related data collection, recordkeeping, and reporting. The Bank will continue to evaluate any changes to the CRA regulations and their impact to the Bank's financial condition, results of operations or liquidity.

Transactions with Affiliates and Insiders

We are subject to certain federal laws that restrict and control our ability to extend credit and provide to or receive services from our affiliates under Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. These restrictions include quantitative and qualitative limits on the amounts and types of transactions that may take place, including the transfer of funds by us to certain of our affiliates in the form of loans, extensions of credit, investments, or purchases of assets. These restrictions also require that credit transactions with affiliates be collateralized and that our transactions with affiliates be on terms no less favorable to us than comparable transactions with unrelated third parties. Generally, our covered transactions with any affiliate are limited to 10% of our capital stock and surplus, and covered transactions with all affiliates are limited to 20% of our capital stock and surplus.

We are also subject to limits under federal law on our ability to extend credit to our directors, executive officers and principal shareholders (persons that beneficially own or control more than 10% of any class of our voting stock), as well as to entities owned or controlled by such persons. Among other things, extensions of credit to such insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with non-insiders. Also, the terms of such extensions of credit may not involve more than the normal risk of non-repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons individually and in the aggregate. Certain extensions of credit also require the approval of our Board.

Financial Privacy and Cybersecurity

Federal and state law contains extensive consumer privacy protection provisions. The Gramm-Leach-Bliley Act requires financial institutions to periodically disclose their privacy policies and practices relating to sharing such information and enables retail customers to opt out of institutions' ability to share information with unaffiliated third parties under certain circumstances. Other federal and state laws and regulations impact our ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. The Gramm-Leach-Bliley Act also requires financial institutions to implement a comprehensive information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information. Federal law also makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

State regulators have been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. For example, the California Consumer Privacy Act, which

became effective on January 1, 2020, applies to for-profit businesses that conduct business in California and meet certain revenue or data collection thresholds and imposes privacy compliance obligations with regard to the personal information of California residents.

Anti-Money Laundering and the USA PATRIOT Act

We are subject to the anti-money laundering (“AML”) provisions of the Bank Secrecy Act, as amended by the USA PATRIOT Act (the “PATRIOT Act”), and implementing regulations issued by the FDIC and the U.S. Treasury. The PATRIOT Act, which includes the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, is intended to facilitate the detection and prosecution of terrorism and international money laundering. The PATRIOT Act establishes standards for verifying customer identification incidental to the opening of new accounts. Other provisions of the PATRIOT Act provide for special information sharing procedures governing communications with the government and other financial institutions with respect to suspected terrorists and money laundering activity, and enhancements to suspicious activity reporting, including electronic filing of suspicious activity reports over a secure filing network. The Bank Secrecy Act requires all financial institutions, including banks, to, among other things, establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. The Bank Secrecy Act includes a variety of record-keeping and reporting requirements (such as cash and suspicious activity reporting), as well as due diligence/know-your-customer documentation requirements. In May 2016, the U.S. Treasury's Office of Financial Crimes Enforcement Network (“FinCEN”) issued a final rule to clarify and enhance customer due diligence requirements for financial institutions, which became applicable on May 11, 2018. The rule (among other things) imposes several new obligations on covered financial institutions with respect to their “legal entity customers,” including corporations, limited liability companies and other similar entities. For each such customer that opens an account (including an existing customer opening a new account), the covered financial institution must identify and verify the customer’s “beneficial owners,” who are specifically defined in the rule. Bank regulators routinely examine institutions for compliance with customer due diligence obligations.

Change in Bank Control

Because we are an “insured depository institution” within the meaning of the FDIA and the Change in Bank Control Act and MFIN is a “financial institution holding company” within the meaning of the Utah Financial Institutions Act, federal and Utah law and regulations prohibit any person or company from acquiring control of us or MFIN, without, in most cases, prior written approval of the FDIC or the Commissioner of the Utah DFI, as applicable. Under the Change in Bank Control Act, control is conclusively presumed if, among other things, a person or company acquires 25% or more of any class of our voting stock. A rebuttable presumption of control arises if a person or company acquires 10% or more of any class of voting stock and is subject to a number of specified “control factors” as set forth in the applicable regulations. Under the Utah Financial Institutions Act, control is defined as the power directly or indirectly or through or in concert with one or more persons to (1) direct or exercise a controlling influence over the management or policies of MFIN or the election of a majority of the directors of MFIN, or (2) to vote 20% or more of any class of MFIN’s voting securities by an individual or to vote more than 10% of any class of MFIN’s voting securities by a person other than an individual. If any holder of any series of preferred stock (including our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F (the “Series F Preferred Stock”)) is or becomes entitled to vote for the election of directors, such series will be deemed a class of voting stock, and any other person will be required to obtain the non-objection of the FDIC under the Change in Bank Control Act to acquire or maintain 10% or more of that series. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our preferred stock in excess of the amount which can be acquired without regulatory approval.

Examination and Supervision

Federal and state banking agencies require us to prepare annual reports on financial condition and to conduct an annual audit of financial affairs in compliance with minimum standards and procedures. We must undergo regular on-site examinations by the FDIC and the Utah DFI, which examine for adherence to a range of legal and regulatory compliance responsibilities. A bank regulator conducting an examination has complete access to the books and records of the examined institution. The results of the examination are confidential. The cost of examinations may be assessed against the examined institution as the agency deems necessary or appropriate.

Incentive Compensation

In 2010, the FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (ii) be compatible with effective internal controls and risk management and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors.

The Dodd-Frank Act requires the federal bank regulators and the SEC to establish joint regulations or guidelines at specified regulated entities having at least \$1 billion in total assets, such as us, prohibiting incentive-based payment arrangements that encourage inappropriate risk-taking by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. The federal bank regulators and the SEC proposed revised rules in 2016, which have not been finalized.

Future Legislation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we operate and may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and modify our business strategy, and limit our ability to pursue business opportunities in an efficient manner.

AVAILABLE INFORMATION

We are subject to the information reporting requirements of the Exchange Act, as administered and enforced by the FDIC, and we are subject to FDIC rules promulgated thereunder. Consequently, we file annual, quarterly and current reports and other information with the FDIC, copies of which are made available to the public over the Internet at <https://efr.fdic.gov/fcxweb/efr/index.html>.

We make available, free of charge through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are filed with or furnished to the FDIC. Certain financial information filed by us with the FDIC is also available electronically at the FDIC's website at <http://www.fdic.gov>. We also maintain a website containing additional information about us at www.medallionbank.com. Our Code of Ethical Conduct and Insider Trading Policy can be located in the Governance Documents section of our website at <http://investor.medallionbank.com/govdocs>. We intend to disclose future amendments to, or waivers from, certain provisions of our code of ethics on the above website within four business days following the date of such amendment or waiver. Documents are available in print free of charge to any shareholder who requests a copy from our Secretary or Investor Relations.

In addition, MFIN makes available its SEC filings, including its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, on its website at www.medallion.com/investors.html. Information contained on MFIN's website is not part of, nor is it incorporated by reference into, this Form 10-K. 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-K, 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.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Our business is heavily concentrated in consumer lending, which carries a high risk of loss and could be adversely affected by an economic downturn.

Our business is heavily concentrated in consumer lending. As a result, we are more susceptible to fluctuations and risks particular to consumer credit than a more diversified company. For example, our business is particularly sensitive to macroeconomic conditions that affect the U.S. economy, consumer spending and consumer credit. We are also more susceptible to the risks of increased regulations and legal and other regulatory actions that are targeted at consumer credit or the specific consumer credit products that we offer (including promotional financing). Our business concentration could have a material adverse effect on our results of operations.

By its nature, lending to consumers carries with it different risks and typically a higher risk of loss than commercial lending. Although the net interest margins are intended to be higher to compensate the Bank for this increased risk, an economic downturn

could result in higher loss rates and lower returns than expected, and could affect the profitability of our consumer loan portfolios. During periods of economic slowdown, delinquencies, defaults, repossessions, and losses generally increase, and consumers are likely to reduce their discretionary spending in areas such as recreation and home improvement, which constitute the significant majority of our business. These periods have been, and may continue to be, accompanied by increasing unemployment rates and declining values of consumer products securing outstanding accounts, which weaken collateral coverage and increase the amount of a loss in the event of default.

Additionally, higher gasoline prices, volatile real estate values and market conditions, reset of adjustable rate mortgages to higher interest rates, general availability of consumer credit, or other factors that impact consumer confidence or disposable income could increase loss frequency and decrease consumer demand for RVs, boats, trailers and other consumer products (including in connection with home improvement projects), as well as weaken collateral values on certain types of consumer products. Any decrease in consumer demand for those products could have a material adverse effect on our ability to originate new loans and, accordingly, on our business, financial condition and results of operations.

Although declines in commodity prices, and more particularly gasoline prices, generally are financially beneficial to the individual consumer, these declines may also have a negative impact on unemployment rates in geographic areas that are highly dependent upon the oil and natural gas industry, which could adversely affect the credit quality of consumers in those areas.

Our balance sheet consists of a significant percentage of non-prime consumer loans, which are associated with higher than average delinquency rates. The actual rates of delinquencies, defaults, repossessions, and losses on these loans could be more dramatically affected by a general economic downturn. In addition, during an economic slowdown or recession, our servicing costs may increase without a corresponding increase in our net interest income.

Furthermore, our business is significantly affected by monetary and regulatory policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control and could have a material adverse effect on us through interest rate changes, costs of compliance with increased regulation, and other factors.

The process we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and how those economic conditions might impair the ability of our borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which may, in turn, impact the reliability of the process and the quality of our assets.

Our financial condition, liquidity and results of operations depend on the credit performance of our loans.

As of December 2019, approximately 63% of our Recreation loans were non-prime receivables with obligors who do not qualify for conventional consumer finance products as a result of, among other things, adverse credit history. While our underwriting guidelines are designed to confirm that, notwithstanding such factors, the obligor would be a reasonable credit risk, the receivables nonetheless are expected to experience higher default rates than a portfolio of obligations of prime obligors. The weakening of our underwriting guidelines for any reason, such as in response to the competitive environment, in an effort to originate higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans or our inability to adequately adapt policies and procedures to changes in economic or other conditions, may result in loan defaults and charge-offs that may necessitate increases to our allowance for loan losses, each of which could adversely affect our net income and financial condition. In the event of a default on a Recreation loan, generally the most practical recovery method is repossession of the financed vehicle, although the collateral value of the vehicle usually does not fully cover the outstanding account balance and costs of recovery. Repossession sales that do not yield sufficient proceeds to repay the receivables in full typically result in losses on those receivables.

In addition, our prime portfolio has grown in proportion to our overall portfolio over the past several years. While prime portfolios typically have lower default rates than non-prime portfolios, we have less ability to make risk adjustments to the pricing of prime loans compared to non-prime loans. As a result, to the extent our prime portfolio continues to grow, a larger proportion of our business will consist of loans with respect to which we will have less flexibility to adjust pricing to absorb losses. As a result of these factors, we may sustain higher losses than anticipated in our prime portfolio. Additionally, if our prime loan losses are higher than expected then we may also be at risk with regards to our forecasted losses, which could impact our loss reserves and results of operations.

Our business, financial condition and results of operations could be negatively impacted if we are unsuccessful in developing and maintaining our relationships with dealerships, contractors and FSPs.

We originate loans by working with third-party sellers of consumer products and not working directly with consumers. As a result, our ability to originate consumer loans depends on our relationships with dealerships, contractors and FSPs. Although we have

relationships with various dealerships, contractors and FSPs, none of our relationships are exclusive and each may be terminated at any time. In particular, there is significant competition for the contractor and FSP relationships we depend on in connection with our Home Improvement Lending segment. The loss of any of these relationships, our failure to develop additional relationships, and circumstances in which our existing dealer, contractor, and FSP relationships generate decreased sales and loan volume all may have a material adverse effect on our business, financial condition and results of operations.

Our use of brokered deposits for our deposit-gathering activities may not be available when needed. The inability to accept and renew brokered deposits would have a material adverse effect on our business, financial condition, liquidity and results of operations.

We rely on the established brokered deposit market to originate deposits to fund our operations. Additionally, our business, strategy and prospects are dependent on our ability to accept and renew brokered deposits without limitation and, therefore, dependent on our ability to be “well-capitalized” under the FDIC’s regulatory framework.

Our brokered deposits consist of deposits raised through the brokered deposit market rather than through retail branches. Although we have developed contractual relationships with a diversified group of investment brokers, and the brokered deposit market is well developed and utilized by many banking institutions, conditions could change that might affect the availability of brokered deposits. In addition, our ability to rely on brokered deposits as a source of funding is subject to capitalization requirements set forth in the FDIC’s prompt corrective action framework. We may not accept or renew brokered deposits unless we are “well-capitalized” or we are “adequately capitalized” and we receive a waiver from the FDIC. A bank that is “adequately capitalized” and that accepts or renews brokered deposits under a waiver from the FDIC is subject to additional restrictions on the interest rates it may offer. See “Supervision and Regulation” for additional information.

If our capital levels fall below the “well-capitalized” level as defined by the FDIC, our ability to raise brokered deposits would be materially impaired. If our capital levels fall below the “adequately-capitalized” level as defined by the FDIC, we would be unable to raise brokered deposits. Any impairment or inability to raise brokered deposits would have a material adverse effect on our business, financial condition, liquidity and results of operations. Brokered deposits may also not be as stable as other types of deposits, and if we experience a period of sustained operating losses, the cost of attracting deposits from the brokered deposit market could increase significantly. Our ability to manage our growth to stay within the “well-capitalized” level is critical to our ability to retain open access to this funding source.

Investors in our preferred stock may be adversely affected and may face significant losses (including the possibility of losing their entire investment) if we are unable to accept or renew brokered deposits or if our access to the brokered deposit market were impaired.

Changes in the taxi and for-hire vehicle industries have resulted in significantly increased competition and have had a material adverse effect on our business, financial condition, and operations and have resulted in losses in our Medallion loan portfolio.

There have been recent changes in the taxi and for-hire vehicle industries that have resulted in significantly increased competition in all of our taxi medallion markets. Ride-sharing applications, or ride-sharing apps, utilized by for-hire vehicles continue to expand domestically and globally. Many of these for-hire vehicle operators operate outside of the regulatory regime with which we and our borrowers operate, which poses an increased risk of competition because such operators are able to pass the cost savings of not having to comply with certain regulations to its passengers. According to the New York City Taxi & Limousine Commission, or TLC, between January 2019 and January 2020 approximately 5,571 new for-hire vehicle licenses were issued, resulting in the total number of for-hire vehicles of approximately 114,852 as of January 30, 2020. In addition, New York law permits cars for-hire to pick up street hails in boroughs outside of Manhattan. The TLC reported that, as of January 30, 2020 there were 5,629 street hail livery licenses, of which approximately 2,572 are active.

TLC annualized data through October 2019 has shown a 8.5% reduction in total New York City taxi fares, compared to the annualized data of November 2018, and a 12.0% reduction in the total number of New York City taxi trips. Such reductions in fare totals and taxi trips are likely the result of a combination of the congestion pricing surcharge that went into effect in February 2019, ride-sharing apps, street hail livery licenses, and other forms of public transportation.

We stopped originating loans to finance the purchase of taxi medallions in September 2014. However, our Medallion loan portfolio continued to represent 9.1% of our total assets at December 2019. As discussed in further detail below, there have also been recent decreases in the values of our Medallion loan collateral. Increased competition from ride-sharing apps and street hail livery licenses has reduced the overall market for taxi services, income from operating taxi medallions, and the value of taxi medallions. If these trends continue and intensify, there would be a further material increase to our loan-to-value ratios, loan delinquencies, and loan defaults, which could have a material adverse effect on our business, financial condition, and results of operations.

Decreases in the value of our Medallion loan collateral have had, and may continue to have, a material adverse effect on our business.

According to TLC data, since 2001, New York City taxi medallions appreciated in value from under \$200,000 to a high of \$1.32 million for corporate taxi medallions and \$1.05 million for individual taxi medallions in 2014. However, we estimate that the market value of taxi medallions declined to \$172,500, \$167,000 net of liquidation costs, as of December 2019. In March 2017, the New York City Council made changes to the taxi medallion classes, eliminating the distinction between individual and corporate taxi medallions. From time to time government entities may also take other actions which could have adverse effects on the market for taxi medallions and which could, in turn, affect, potentially materially, our financial condition and results of operations.

Additionally, a small portion of our loan revenue is derived from loans collateralized by Chicago taxi medallions. The Chicago taxi medallions had appreciated in value from \$50,000 in 2003 to a high of approximately \$370,000 in 2013. Since that time, however, there has been a decline in the value of Chicago taxi medallions to approximately \$25,000, \$19,500 net of liquidation costs, as of December 2019.

Decreases in the value of our Medallion loan collateral have resulted in an increase in the loan-to-value ratios of our Medallion loans. If taxi medallion values continue to decline, there is likely to be an increase in Medallion loan delinquencies, foreclosures and borrower bankruptcies. Our ability to recover on defaulted Medallion loans by foreclosing on and selling the taxi medallion collateral would be diminished, which would result in material losses on defaulted Medallion loans which would have a material adverse effect on our business. If we are required to liquidate all or a portion of our Medallion loans quickly, we would realize less than the value at which we had previously recorded such taxi medallions.

Changes in taxi industry regulations that result in the issuance of additional taxi medallions or increases in the expenses involved in operating a taxi medallion would decrease the value of our Medallion loan collateral.

Every city in which we originated Medallion loans, and most other major cities in the United States, limits the supply of taxi medallions. This regulation results in supply restrictions that support the value of taxi medallions. Actions that loosen these restrictions and result in the issuance of additional taxi medallions into a market could decrease the value of taxi medallions in that market. If this were to occur, the value of the collateral securing our then-outstanding Medallion loans in that market would be adversely affected. We are unable to forecast with any degree of certainty whether any other potential increases in the supply of taxi medallions will occur.

In New York City, Chicago and other markets where we originated Medallion loans, taxi fares are generally set by government agencies. Expenses associated with operating taxis are largely unregulated. As a result, the ability of taxi operators to recoup increases in expenses is limited in the short term. Escalating expenses, such as rising gas prices and an increase in interest rates, can render taxi operations less profitable, could cause borrowers to default on loans from us and would adversely affect the value of our collateral.

Uncertainty relating to the reporting of collateral values for our loans may adversely affect the value of our portfolio.

Medallion loans are primarily collateral-based lending, whereby the collateral value generally exceeds the amount of the loan at the time of origination, providing sufficient excess collateral to protect us against losses. Collateral values for Medallion loans reflect recent sales prices and are typically obtained from the regulatory agency in a particular local market. We rely on the integrity of the collateral value benchmarks obtained by the applicable regulatory agencies and other third parties. Any changes or volatility in these benchmarks could cause us to suffer losses. We have experienced a significant downward movement in taxi medallion collateral values, which has caused and may continue to cause a negative impact on our valuation analysis and could further significantly lower the fair market value measurements of our portfolio.

We require an objective benchmark in determining the fair value of our portfolio. If the benchmarks that we currently use are deemed to be unreliable, we will need to use other intrinsic factors in determining the collateral values for our loans.

Changes in interest rates may adversely impact our profitability and risk profile.

Our profitability may be directly affected by interest rate levels and fluctuations in interest rates. As interest rates change, our gross interest rate spread on originations either increases or decreases because the rates charged on the loans originated are limited by market and competitive conditions, restricting our ability to pass on increased interest costs to the consumer. Additionally, although a significant percentage of our borrowers are non-prime and are not highly sensitive to interest rate movement, increases in interest rates may reduce the volume of loans we originate. While we monitor the interest rate environment and seek to mitigate the impact of increased interest rates, we cannot provide assurance that the impact of changes in interest rates can be successfully mitigated.

In addition, the majority of our loan portfolio consists of fixed-rate loans. To the extent our funding costs increase in response to an increase in market rates of interest, an abrupt increase in market rates of interest may have an adverse impact on our results of operations until we are able to originate new loans at higher prevailing interest rates.

We are dependent upon our senior management team for our future success.

Our future success will depend, to a significant extent, on the continued service and coordination of our senior management team, particularly, Donald Poulton, our President and Chief Executive Officer, Trent Hudson, our Chief Financial Officer, Justin Haley, our Chief Operating Officer, Steven Hannay, our Chief Lending Officer, and John Taylor, our Senior Vice President of Strategic Partnerships. Changes in key management positions may temporarily affect our financial performance and results of operations as we adjust to the loss of personnel with deep institutional knowledge and as new management becomes familiar with our business. In addition, although we have employment agreements in place with certain members of our senior management team, they may still elect to leave at any time. The departure of any of these individuals and our inability to attract and retain qualified replacements, or to successfully integrate newly-hired personnel within our organization, could have a material adverse effect on our ability to manage or grow our business and effectively mitigate risk.

Our allowance for loan losses may prove to be insufficient to cover losses on our loans.

We maintain an allowance for loan losses (a reserve established through a provision for losses that decreases our earnings and that, accordingly, affects our financial condition) that we believe is appropriate to provide for incurred losses in our loan portfolio.

The process for establishing an allowance for loan losses is critical to our results of operations and financial condition, and requires complex models and judgments, including forecasts of economic conditions. Changes in economic conditions affecting borrowers, growth in our loan portfolio, changes in the credit characteristics of our loan portfolio, new information regarding our loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In cases where we modify a loan, if the modified loans do not perform as anticipated, we may be required to establish additional allowances on these loans.

We periodically review and update our methodology, models and the underlying assumptions, estimates and assessments we use to establish our allowance for loan losses to reflect our view of current conditions. Moreover, our regulators, as part of their supervisory function, periodically review the methodology, models and the underlying assumptions, estimates and assessments we use for calculating, and the adequacy of, our allowance for loan losses. Our regulators, based on their judgment, may conclude that we should modify our methodology, models or the underlying assumptions, estimates and assessments, increase our allowance for loan losses and/or recognize further losses. We continue to review and evaluate our methodology, models and the underlying assumptions, estimates and assessments we use and we will implement further enhancements or changes to them, as needed. We cannot provide assurance that our loan loss reserves will be sufficient to cover actual losses. Future increases in the allowance for loan losses or recognized losses (as a result of any review, update, regulatory guidance, changes in accounting standards or otherwise) will result in a decrease in net earnings and capital and could have a material adverse effect on our business, results of operations and financial condition.

Changes in our accounting policies or in accounting standards could materially and adversely affect how we report our results of operations and financial condition.

From time to time, standard setters, including the Financial Accounting Standards Board (the “FASB”) or the U.S. Securities and Exchange Commission (the “SEC”), change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially affect how we record and report our financial condition and results of operations. For example, in June 2016, the FASB issued Accounting Standards Update 2016-13, *Measurement of Credit Losses on Financial Instruments* (commonly referred to as CECL), that will substantially change the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The standard removes the existing “probable” threshold in U.S. generally accepted accounting principles (“GAAP”) for recognizing credit losses and instead requires companies to reflect their estimate of credit losses over the lives of the financial assets. Companies, including the Bank, will be required to consider all relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts.

As an emerging growth company, we may take advantage of an extended transition period for complying with new or revised accounting standards applicable to public companies that are not “smaller reporting companies” under the regulations of the SEC. We have elected to take advantage of this extended transition period and, as a result, we currently expect that we will be required to comply with the CECL standard for fiscal years beginning after December 15, 2022. The standard is likely to have an adverse effect, potentially material, to our allowance and capital at adoption in 2023; however, we are still evaluating the impact of this change in

accounting standards. It is also possible that our ongoing reporting earnings and lending activity may be adversely affected in the periods following adoption.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and that of our customers and personally identifiable information of our customers and employees, in third-party data centers, and on our networks. The secure processing, maintenance, and transmission of this information is critical to our operations. Despite our security and business continuity measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions, or vulnerable to other disruptions as a result of systems failures, operational events, employee error or incidents affecting our third-party service providers (or providers to those third-party service providers). Any such breach or disruption could compromise our networks, and the information stored there could be accessed, publicly disclosed, destroyed, lost or stolen. Any such access, disclosure, destruction or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information and regulatory penalties, disrupt our operations and damage our reputation, which could adversely affect our business. In addition, we may also be required to incur significant costs in connection with any regulatory investigation or civil litigation resulting from a security breach or other information technology disruption that affects us.

We have been, and likely will continue to be, the target of attempted cyber-attacks, computer viruses, malicious code, phishing attacks, denial of service attacks and other information security threats. To date, cyber-attacks have not had a material impact on our financial condition, results or business; however, we could suffer material financial or other losses in the future and we are not able to predict the severity of these attacks. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the current global economic and political environment, our prominent size and scale and our role in the financial services industry, the outsourcing of some of our business operations, the ongoing shortage of qualified cyber security professionals, and the interconnectivity and interdependence of third parties to our systems.

Our operations could be interrupted if certain external vendors on which we rely experience difficulty, terminate their services or fail to comply with banking laws and regulations.

We depend to a significant extent on relationships with third parties that provide services, primarily information technology services critical to our operations. Currently, we obtain services from third parties that include information technology infrastructure and support, plus loan origination, loan servicing, and accounting systems and support. If any of our third-party service providers experience difficulties or terminate their services and we are unable to replace our service providers with other service providers, our operations could be interrupted. It may be difficult for us to replace some of our third-party vendors, particularly vendors providing our loan origination, loan servicing and accounting services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason. If an interruption were to continue for a significant period of time, it could have a material adverse effect on our business, financial condition or results of operations. Even if we are able to replace these third parties, it may be at higher cost to us, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if a third-party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber-attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business, financial condition or results of operations.

Competition with other lenders could adversely affect us.

The consumer lending market is very competitive and is served by a variety of entities, including banks, savings and loan associations, credit unions, independent finance companies, and financial technology companies. The recreation lending and home improvement lending markets are also highly fragmented, with a small number of lenders capturing large shares of each market and many smaller lenders competing for the remaining market share. Our competitors often seek to provide financing on terms more favorable to consumers or dealers, contractors and FSPs than we offer. Many of these competitors also have long-standing relationships with dealers, contractors and FSPs and may offer other forms of financing that we do not offer, e.g., credit card lending. We anticipate that we will encounter greater competition as we expand our operations and if the economy remains stable. In addition, certain of our competitors are not subject to the same regulatory requirements that we are and, as a result, these competitors may have advantages in conducting certain business and providing certain services and may be more aggressive in their loan origination activities. Increasing competition could also require us to lower the rates we charge on loans in order to maintain our desired loan origination volume, which could also have a material adverse effect on our business, financial condition and results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to have sufficient capital resources and liquidity to meet our commitments, including the terms of the 2003 Capital Maintenance Agreement, and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. As a wholly owned subsidiary, we also depend on MFIN to provide additional common equity Tier 1 capital, and MFIN's ability to provide such capital could depend on its ability to access the capital markets. We may not be able to obtain capital on acceptable terms, or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of capital markets investors or other disruptions in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition or results of operations.

We are subject to a variety of risks in connection with any sales of loans we may conduct.

When we sell consumer loans we are required to make customary representations and warranties to the purchaser about the loans and the manner in which they were originated and serviced. If any of these representations and warranties are incorrect, we may be required to indemnify the purchaser for any related losses, or we may be required to repurchase or provide substitute loans for part or all of the affected loans. We may also be required to repurchase loans as a result of borrower fraud on a loan we have sold. In the past we have had to, and may in the future have to, indemnify purchasers for losses or repurchase loans in connection with alleged breaches of representations and warranties. To date, such indemnifications and repurchases have not had a material impact on our financial condition, results or business; however, if the level of repurchase and indemnity activity increases significantly, it could have a material adverse effect on our liquidity, business, financial condition or results of operations.

In addition, we must report as held for sale any loans which we have undertaken to sell, whether or not a purchase agreement for the loans has been executed. We may therefore be unable to ultimately complete a sale for part or all of the loans we classify as held for sale. We must exercise our judgment in determining when loans must be reclassified from held for investment status to held for sale status under applicable accounting guidelines. Any failure to accurately report loans as held for sale could result in regulatory investigations and monetary penalties. Any of these actions could have a material adverse effect on our business, financial condition or results of operations. Our policy is to carry loans held for sale at the lower of cost or fair value. As a result, prior to being sold, any loans classified as held for sale may be adversely affected by market conditions, including changes in interest rates, and by changes in the borrower's creditworthiness, and the value associated with these loans, including any loans originated for sale in the secondary market, may decline prior to being sold. We may be required to reduce the value of any loans we mark held for sale as a result, which could have a material adverse effect on our business, financial condition or results of operations.

We may decide not to pursue sales of loan portfolios, which could have a material adverse effect on our non-interest income.

As a portfolio lender, we generally seek to earn net interest income. Although we have engaged in sales of loan portfolios in recent years, there can be no assurance that we may do so in the future. Factors that have affected our decisions to engage in sales of loan portfolios include the availability and attractiveness of sale opportunities, credit weakness in our Medallion loan portfolio, and our balance sheet management strategies. Accordingly, if attractive sale opportunities were not available, or the Bank were to decide not to pursue sales of loan portfolios in order to support its growth, we may not sell any loans, which, in turn, could have a material adverse effect on our non-interest income.

Sales of loans could have an adverse effect on the credit or other characteristics of the loans and portfolios we retain.

From time to time, we have sold portfolios of loans, and those transactions have generally included loans with stronger credit characteristics than the overall composition of our loan portfolio. Accordingly, following those transactions, the overall credit characteristics of our loan portfolio declined due to the transfer of the loans with stronger credit characteristics. In the future, the credit characteristics of our loan portfolio could change as a result of loan sales, and other characteristics could change as well. For example, if we sell loans with less favorable credit characteristics, the net interest income and net interest margin for our loan portfolio could be adversely affected because loans with less favorable credit characteristics typically generate more net interest income and higher net interest margin.

A reduction in demand for our products and failure by us to adapt to such reduction could adversely affect our business, financial condition and results of operations.

The demand for the products we offer may be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences or financial conditions, regulatory restrictions that decrease customer access to particular products or the availability of competing products. If we fail to adapt to significant changes in our customers' demand for, or access to, our products, our revenues could decrease and our operations could be adversely affected. Even if we do make changes to our product offerings to fulfill customer demand, customers may resist such changes or may reject such products. Moreover, the effect of any product change on the results of our business may not be fully ascertainable until the change has been in effect for some time, and, by that time, it may be too late to make further modifications to such product without causing further adverse effects to our business, results of operations and financial condition.

Our business depends on our ability to adapt to rapid technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to serve customers better and to reduce costs. Our future success depends, in part, upon our ability to address the needs of customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new, technology-driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Failure to successfully keep pace with technological change affecting the financial services industry and failure to avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition or results of operations.

We expect that new technologies and business processes applicable to the banking industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations.

We depend on the accuracy and completeness of information about customers.

In deciding whether to extend credit or enter into other transactions, and in evaluating and monitoring our loan portfolio on an ongoing basis, we may rely on information furnished by or on behalf of customers, including financial statements, credit reports and other financial information. We may also rely on representations of those customers or of other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, incomplete, fraudulent or misleading financial statements, credit reports or other financial or business information, or the failure to receive such information on a timely basis, could result in loan losses, reputational damage or other effects that could have a material adverse effect on our business, financial condition or results of operations.

Current or former employee misconduct could expose us to significant legal liability and reputational harm.

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of the dealerships, contractors and FSPs that sell our consumer products are of critical importance. Our employees could engage, or our former directors, employees, or our controlling shareholder could have engaged, in misconduct that adversely affects our business. For example, if such a person were to engage, or previously engaged, in fraudulent, illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation (as a consequence of the negative perception resulting from such activities), financial position, third-party relationships and ability to forge new relationships with third-party dealers or contractors. Our business often requires that we deal with confidential information. If our employees were to improperly use or disclose this information, or if former directors, employees, or our controlling shareholder previously improperly used or disclosed this information, even if inadvertently, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. Misconduct by our employees or former directors, employees, or our controlling shareholder, or even unsubstantiated allegations of misconduct, could result in a material adverse effect on our business, financial condition or results of operations.

We are a wholly owned subsidiary of MFIN and are dependent on MFIN and certain of our affiliates for various services and capital.

We are a wholly owned subsidiary of MFIN. As a wholly owned subsidiary, we rely on MFIN and our affiliates generally, including for the provision of various services and capital. We receive Medallion loan servicing, collection and other customer services, and we historically received loan origination and marketing services, from certain of our affiliates. We also receive certain corporate services, including support for business development, capital raises, human resources and legal, from MFIN. The services we receive from MFIN and our affiliates have in the past and may in the future change as a result of our overall strategy and due to one-time or opportunistic events.

As a consequence of the foregoing, in the event our relationships with our affiliates are not maintained, for any reason, including as a result of possible strategic decisions that MFIN may make from time to time or as a result of material adverse changes in MFIN's performance, the cost of operating and funding our business may increase and our business, financial condition and earnings may be materially and adversely affected.

As a condition to receipt of FDIC insurance, we entered into the 2003 Capital Maintenance Agreement requiring us to maintain a 15% leverage ratio (Tier 1 capital to average assets). The 2003 Capital Maintenance Agreement also requires MFIN to contribute additional capital to the Bank in the event that our capital ratios fall below the levels required by the agreement. Although we do not depend on MFIN as a source of funding, as a wholly owned subsidiary, in the event that we require capital from MFIN, there is no guarantee that MFIN will be able or will agree to provide it.

We have in the past and may in the future pursue new strategies and lines of business, and we may face enhanced risks as a result of these changes in strategy, including from transacting with a broader array of customers and exposure to new assets, activities and markets.

The Bank was formed in 2002 to provide a low-cost source of funds in connection with MFIN's key lending businesses at the time, including its Medallion loan portfolio. Since that time, we have expanded and changed our strategy and pursued new business lines on more than one occasion. In 2004, we began originating consumer loans used to purchase RVs, boats and trailers and, in 2012, we expanded our consumer lending activities by adding a home improvement consumer finance business. We have also reduced our activities or exited businesses over the course of our operating history, including our exit from an asset-based lending business with a portfolio sale in September 2016 and our transition away from Medallion loan origination since September 2014.

In addition, in July 2019, we announced that John Taylor had joined the Bank to oversee the build-out of a new Strategic Partnership Program, through which the Bank will partner with third parties to offer consumer loans and other financial services. The Strategic Partnership Program is in the early stages of development, and its future impact on our financial condition and results of operations is currently unknown. In addition, potential legal and regulatory risks associated with the entry into this line of business are currently uncertain and may develop in ways that could affect us adversely, including as a result of legal proceedings brought against us on the basis that we are the "true lender" of the loans facilitated, held and serviced by our partners, or on the basis of a determination by the FDIC or other financial regulators that our Strategic Partnership Program represents an unsafe and unsound practice. We expect to have increased compliance and operating costs associated with the Strategic Partnership Program, which could have an adverse impact on our results of operations. Development of the Strategic Partnership Program could change, possibly materially, our exposure to operational risk events, including failure to comply with applicable legal or regulatory requirements.

We may continue to change our strategy and enter new lines of business, including through the acquisition of another company, acquisitions of new types of loan portfolios or other asset classes, or otherwise, in the future. Any such new business initiatives may expose us to new and enhanced risks, including new credit-related, compliance, fraud, market and operational risks, and different and potentially greater regulatory scrutiny of such new activities and assets. In addition, changes in our strategy and pursuit of new business lines could bring us into contact, directly or indirectly, with customers that are not within our traditional customer base and expose us to new asset classes, activities and markets.

Any new business initiatives and strategies we may pursue in the future may be less successful than anticipated and may not advance our intended business strategy. We may not realize a satisfactory return on investments or acquisitions, we may experience difficulty in managing new portfolios or integrating operations, and management's attention from our other businesses could be diverted. Any of these results could ultimately have an adverse effect on our business, financial condition or results of operations.

An outbreak of disease or similar public health threat, such as the current coronavirus pandemic, could have a material adverse impact on our business, operating results and financial condition.

Our business could be adversely impacted by the effects of the current coronavirus (COVID-19) or other epidemics. In December 2019, a novel strain of COVID-19 emerged in China, and the virus has now spread to many countries around the world,

including the United States. The spread of COVID-19 has resulted in the Director General of the World Health Organization declaring the outbreak of COVID-19 a pandemic. While the COVID-19 outbreak is still in early stages, it has already caused significant portions of the U.S. economy to slow down or shut down and has resulted in many people going into social isolation or quarantine.

The current COVID-19 outbreak, perceptions regarding its broad impact and preventive measures taken to contain or mitigate the outbreak have had, and may continue to have, significant negative effects on the U.S. and global economy, employment levels, employee productivity, and financial market conditions, which, in turn, may increasingly have negative effects the ability of borrowers to repay outstanding loans, the value of collateral securing loans, demand for loans and other financial services products and consumer discretionary spending. The effects of the outbreak on us could be exacerbated given that our business model is largely consumer directed and the outbreak, and preventative measures taken to contain or mitigate the outbreak, have had and may increasingly have a significant negative effects on consumer discretionary spending. While we have taken certain measures to operate during the pandemic, including by having employees work remotely and by continuing to negotiate with borrowers as to payment terms and adjusting our related policies and procedures, we may still experience disruptions to our operations or other adverse effects as a result of the COVID-19 pandemic's impacts on our employees and borrowers. As a result of these or other consequences, the outbreak could adversely affect our business, results of operations and financial condition, possibly materially. The extent to which the outbreak will impact our operations will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken to contain or mitigate the outbreak.

Risks Related to the Regulatory Oversight of Our Business

The banking industry is highly regulated, and the regulatory framework, together with any future legislative or regulatory changes, may have a significant adverse effect on our operations.

The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our security holders. We are subject to regulation and supervision by the FDIC and the Utah DFI. The laws and regulations applicable to us govern a variety of matters, including permissible types, amounts and terms of loans and investments we may make, the maximum interest rate that may be charged, the amount of reserves we must hold against deposits we take, the types of deposits we may accept, maintenance of adequate capital and liquidity, changes in the control of us and MFIN, restrictions on dividends and establishment of new offices. As long as we remain well-capitalized under federal regulatory standards, there are no restrictions on the rates we may pay on brokered deposits. We must obtain approval from our regulators before engaging in certain activities or acquisitions, and there is the risk that such approvals may not be obtained, either in a timely manner or at all. Our regulators also have the ability to compel us to take, or restrict us from taking, certain actions entirely, such as actions that our regulators deem to constitute an unsafe or unsound banking practice. Our failure to comply with any applicable laws or regulations, or regulatory policies and interpretations of such laws and regulations, could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could have a material adverse effect on our business, financial condition or results of operations.

Since the 2007-2009 recession, federal and state banking laws and regulations, as well as interpretations and implementations of these laws and regulations, have undergone substantial review and change. In particular, the Dodd-Frank Act drastically revised the laws and regulations under which we operate. Financial institutions generally have also been subjected to increased scrutiny from regulatory authorities. These changes and increased scrutiny have resulted and may continue to result in increased costs of doing business and may in the future result in decreased revenues and net income, reduce our ability to effectively compete to attract and retain customers, or make it less attractive for us to continue providing certain products and services. Any future changes in federal and state law and regulations, as well as the interpretations and implementations, or modifications or repeals, of such laws and regulations, could affect us in substantial and unpredictable ways, including those listed above or other ways that could have a material adverse effect on our business, financial condition or results of operations.

Changes in laws, regulations, or policies may adversely affect our business.

The post-financial crisis era has been marked by an increase in regulation, regulatory intensity, and enforcement. We are unable to predict the ways in which this change in the regulatory environment could impact our business models or objectives. The laws and regulations governing our lending, servicing, and debt collection activities or the regulatory or enforcement environment at the federal level or in any of the states in which we operate may change at any time which may have an adverse effect on our business.

We expect, however, to see an increase over time in regulatory scrutiny and enforcement in the area of consumer financial products regulation, both as a result of recent regulatory scrutiny and related enforcement actions in the area of consumer protection, and the establishment of the Consumer Financial Protection Bureau (the "CFPB") by the Dodd-Frank Act. The CFPB is responsible for interpreting and enforcing a broad range of consumer protection laws that govern the provision of deposit accounts and the making of loans, including certain loans we provide to our customers. While our size currently falls below the threshold that would give the

CFPB direct authority over us, our existing bank supervisors may pursue similar policies and make similar information requests to those of the CFPB with respect to consumer financial products and other matters within the scope of the CFPB's authority. Despite recent efforts to alleviate the impact of such regulatory changes, we believe that regulatory reforms and increased regulatory supervision related to consumer protection, together with provisions of the Dodd-Frank Act, may increase our cost of doing business, impose new restrictions on the way in which we conduct our business, or add significant operational constraints that might impair our profitability.

We are unable to predict how these or any other future legislative proposals or programs will be administered or implemented or in what form, or whether any additional or similar changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on our results of operations and financial condition.

Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market and on our reputation generally. No assurance can be given that applicable laws or regulations will not be amended or construed differently or that new laws and regulations will not be adopted, either of which could materially adversely affect our business, financial condition, or results of operations.

Increases in FDIC insurance premiums may adversely affect our earnings.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums we will be required to pay for FDIC insurance. In 2010, the FDIC increased the deposit insurance fund's target reserve ratio to 2.0% of insured deposits following the Dodd-Frank Act's elimination of the 1.5% cap on the insurance fund's reserve ratio and put in place a restoration plan to restore the deposit insurance fund to its 1.35% minimum reserve ratio mandated by the Dodd-Frank Act by September 30, 2020. The FDIC reported that the deposit insurance fund reserve ratio was 1.41% as of December 2019. Additional increases in assessment rates may be required in the future to achieve this targeted reserve ratio. Future increases of FDIC insurance premiums or special assessments could have a material adverse effect on our business, financial condition or results of operations.

Non-compliance with the USA PATRIOT Act, the Bank Secrecy Act or other laws and regulations could result in fines or sanctions against us.

The USA PATRIOT Act of 2001 and the Bank Secrecy Act require financial institutions to design and implement programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with FinCEN. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers, and beneficial owners of certain legal entity customers, seeking to open new financial accounts. Federal and state bank regulators also have focused on compliance with Bank Secrecy Act and anti-money laundering regulations. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or expanding activities. During the last several years, a number of banking institutions have received large fines for non-compliance with these laws and regulations. Although we have policies and procedures designed to assist in compliance with the Bank Secrecy Act and other anti-money laundering laws and regulations, there can be no assurance that such policies or procedures will work effectively all of the time or protect us against liability for actions taken by our employees, agents, and intermediaries with respect to our business or any businesses that we may acquire. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us, which could have a material adverse effect on our business, financial condition or results of operations.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively affected by these laws. For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by us with nonaffiliated third parties (with certain exceptions); and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing safeguards appropriate based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and

information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

Our use of third-party vendors and our other ongoing third-party business relationships are subject to increasing regulatory requirements and attention.

We regularly use third-party vendors as part of our business. We also have substantial ongoing business relationships with other third parties. These types of third-party relationships are subject to increasingly demanding regulatory requirements and attention by our federal and state bank regulators. Recent regulation requires us to enhance our due diligence, ongoing monitoring and control over our third-party vendors and other ongoing third-party business relationships. In certain cases, we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs and potentially limit our competitiveness. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third-party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third-party vendors or other ongoing third-party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to Our Preferred Stock

Shares of our preferred stock are not insured deposits.

Shares of our preferred stock are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency. An investment in our preferred stock has risks, and you may lose your entire investment.

Our performance, general market conditions and unpredictable factors could adversely affect the market price for our preferred stock, which could result in rapid and substantial losses for our shareholders.

The market price of our outstanding Series F Preferred Stock may be highly volatile and could be subject to wide fluctuations. Further, new series of preferred stock we may issue in the future will not have an active trading market when issued, and an active trading market for such new series of preferred stock may not develop or, even if it develops, may not be sustained. Even if an active trading market develops, the trading volume on such series of preferred stock may fluctuate and cause significant price variations to occur. If the market price of a series of our preferred stock, including the Series F Preferred Stock, declines significantly, holders of such series of preferred stock may be unable to resell their shares of such series of preferred stock at or above the purchase price, if at all.

We cannot assure holders of our preferred stock that the market price of our preferred stock will not fluctuate or decline significantly in the future. Several factors, many of which are beyond our control, could negatively affect the price of our preferred stock, or result in fluctuations in the price or trading volume of our preferred stock. Factors that might influence the market price of our preferred stock include:

- whether we declare or fail to declare dividends on our preferred stock from time to time;
- our operating performance, financial condition and prospects, or the operating performance, financial condition and prospects of our competitors;
- actual or potential litigation and governmental investigations;
- our creditworthiness;

- the ratings given to us or our securities by credit rating agencies, including the ratings given to the Series F Preferred Stock or any other series of preferred stock we may issue in the future;
- prevailing interest rates;
- the dividend rate structure of our preferred stock, and the market acceptance of any base rate or benchmark for the dividend rate or fallback provisions in the preferred stock;
- publication of research reports about us or the financial services industry in general;
- developments in the credit markets and the markets for securities relating to consumer financing, and developments with respect to financial institutions generally;
- failure of securities analysts to cover us or our preferred stock;
- additions or departures of our key personnel;
- adverse market reactions to any indebtedness we may incur or securities we may issue in the future;
- actions by MFIN, our controlling shareholder;
- the market for similar securities; and
- economic, financial, geopolitical, regulatory or judicial events that affect us or the financial markets generally.

In addition, the condition in the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market price for our preferred stock. Accordingly, the shares of our preferred stock that an investor purchases may trade at a discount to their cost. If any of the foregoing occurs, it could cause the price of our preferred stock to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Securities analysts may not initiate coverage of, or continue to cover, us or our preferred stock.

The trading market for our preferred stock will depend in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts, and they may not cover us or our preferred stock. If securities analysts do not cover us or our preferred stock, the lack of research coverage may adversely affect the market price for our preferred stock. If we are covered by securities analysts, and our preferred stock is the subject of an unfavorable report, the price of our preferred stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our preferred stock to decline.

Holders of our preferred stock are not entitled to receive dividends unless declared by us, and dividends are not cumulative.

Dividends on our issued preferred stock are not cumulative, and we expect that dividends on any future preferred stock we issue will not be cumulative in order for such preferred stock to qualify as additional Tier 1 capital. If our Board of Directors (our "Board") (or a duly authorized committee thereof) does not declare a dividend on a series of our preferred stock for any dividend period, including if prevented from doing so by bank regulators or applicable bank regulatory requirements (including rules and regulations regarding capital adequacy), holders of such series of preferred stock will not be entitled to receive any such dividend, and any such undeclared and unpaid dividend will not accumulate or be payable. We will have no obligation to pay dividends for a dividend period after the dividend payment date for that period if our Board (or a duly authorized committee thereof) has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to such preferred stock or any other preferred stock we may issue and whether or not funds are or subsequently become available.

As an FDIC-insured, Utah-chartered industrial bank supervised and regulated by the Utah DFI and the FDIC, our ability to declare and pay dividends on and redeem our preferred stock depends on certain federal and state regulatory considerations. In particular, Utah law permits us to declare dividends (i) only out of our net profits, after providing for all expenses, losses, interest and taxes accrued or due from the Bank and, (ii) for each period, only after we have transferred at least 10% of our net profits before

dividends for the period to a surplus fund. We are required to make this transfer of 10% of our net profits prior to any dividend until the surplus reaches 100% of our capital stock. As of December 2019, our dividend surplus fund exceeded 100% of our capital stock.

In addition, the comprehensive capital framework for U.S. banking organizations, as implemented by the FDIC, imposes on banks the need to maintain more and higher quality regulatory capital than has historically been the case. These capital requirements could adversely affect our ability to pay dividends or may result in additional limitations on our ability to pay dividends on or redeem our preferred stock. Under the FDIC's capital rules, dividends on our preferred stock may only be paid out of our net income, retained earnings or surplus related to other additional tier 1 capital instruments. In addition, the FDIC's capital rules include a capital conservation buffer that was fully phased in as of January 1, 2019. The buffer can be satisfied only with CET1 capital. If our risk-based capital ratios do not satisfy minimum requirements plus the capital conservation buffer, we will face graduated constraints on, among other things, capital distributions (including dividends on our preferred stock) based on the amount of the shortfall and the amount of our eligible retained income (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income). In addition, if payment of dividends on our preferred stock for any dividend period would cause us to fail to comply with any applicable law or regulation, we will not declare or pay a dividend for such dividend period. In such a case, holders of our preferred stock will not be entitled to receive any dividend for that dividend period, and the unpaid dividend will cease to accrue or be payable.

Our Board (or a duly authorized committee thereof) could also determine that it would be in our best interest to pay less than the full amount of stated dividends or no dividends on a series of our preferred stock for any dividend period, even at a time when sufficient funds were available to make the payment. In making this determination, our Board (or a duly authorized committee thereof) would consider all the factors it considered relevant, which we expect would include our financial condition and capital needs, the impact of current or pending legislation and regulations and general economic conditions.

An active trading market for the Series F Preferred Stock may not be sustained, which may negatively affect its market value and the ability of holders to transfer or sell their shares.

The Series F Preferred Stock is currently listed on NASDAQ Capital Market under the symbol "MBNKP". Since the Series F Preferred Stock has no stated maturity date, investors seeking liquidity will be limited to selling their shares in the secondary market. An active trading market on NASDAQ Capital Market for the Series F Preferred Stock may not be sustained, in which case the trading price of the Series F Preferred Stock could be adversely affected, the difference between bid and asked prices could be substantial and transferability of shares of Series F Preferred Stock will be limited. The delisting of the Series F Preferred Stock would have similar consequences on the market price and liquidity of the Series F Preferred Stock as described above, and investors are subject to the risk that the Series F Preferred Stock ceases to be listed on a securities exchange whether because we decide to delist the securities voluntarily or otherwise. Therefore, we cannot assure holders of our Series F Preferred Stock that a liquid trading market for the Series F Preferred Stock will be maintained, that such holders will be able to sell their shares of Series F Preferred Stock at a particular time or that the price such holders receive when they sell will be favorable. Similar risks would apply to any other series of preferred stock that we may issue in the future.

As a result of our obligations to creditors and holders of securities ranking equal to our preferred stock, we may not be able to make dividend or liquidation payments to holders of our preferred stock.

Our preferred stock ranks:

- junior to our deposits, borrowings and any other obligations to our creditors upon our liquidation;
- equal to our shares of other preferred stock, including our Series E Preferred Stock and our Series F Preferred Stock, issued on a parity basis with regard to payment of dividends (except as provided below) and amounts due upon liquidation, dissolution or winding-up; and
- senior to our common stock with regard to payment of dividends and amounts due upon liquidation, dissolution or winding-up.

Payment of amounts due on our preferred stock will be subordinated to all of our existing and future deposits and other debt. Upon our liquidation, our obligations to our depositors and creditors would rank senior to our preferred stock. We may also in the future issue shares of preferred stock that rank senior to our then-outstanding preferred stock as to dividend and liquidation payments, subject to the requisite consent of the holders of our then-outstanding preferred stock.

We may in the future issue additional shares of the Series F Preferred Stock and/or shares of another class or series of preferred stock ranking on a parity with our then-outstanding preferred stock with respect to the payment of dividends and the

distribution of assets upon liquidation, dissolution or winding-up. Upon declaration of a dividend, or upon our liquidation, dissolution or winding-up, we are required to pay the holders of any preferred stock issued on a parity basis at the same time and in the same proportions. Consequently, if we do not have sufficient funds to pay scheduled dividends to the holders of the preferred stock issued on a parity basis, we may not declare or pay a portion of the scheduled dividends. Similarly, upon our liquidation, dissolution or winding-up, if we do not have sufficient funds to pay the full liquidation preference to the holders of the preferred stock issued on a parity basis, holders of our preferred stock may receive less than the liquidation preference of their shares.

At December 2019, we had \$26,303,000 of Series E Preferred Stock issued and outstanding, and \$46,000,000 of Series F Preferred Stock issued and outstanding.

If we are not paying full dividends on the Series E Preferred Stock, we will not be able to pay dividends on our other preferred stock.

The terms of our outstanding Series E Preferred Stock prohibit us from declaring or paying any dividends or distributions on our common stock, any other junior stock and any parity stock, including our other preferred stock, at any time when we have not declared and paid in full dividends on the Series E Preferred Stock. Therefore, if we are not paying full dividends on any outstanding shares of Series E Preferred Stock, we will not be able to pay any dividends on our other preferred stock.

We may issue additional shares of a series of our preferred stock, securities convertible or exchangeable for a series of our preferred stock or a new series of preferred stock that ranks equally with an outstanding series of our preferred stock, and thereby materially and adversely affect the price of an outstanding series of our preferred stock.

We are not restricted from authorizing or issuing additional shares of a series of our preferred stock, securities convertible or exchangeable for a series of our preferred stock, or a new series of preferred stock that ranks equally with a series of our then-outstanding preferred stock, in each case, including with respect to our Series F Preferred Stock. We have no obligation to consider the interest of the holders of a series of our preferred stock, including the Series F Preferred Stock, in engaging in any such offering or transaction. If we issue such additional securities, it may materially and adversely affect the price of an outstanding series of our preferred stock.

Fulfilling our public company financial reporting and other regulatory obligations and transitioning to a public company is expensive and time consuming and may strain our resources.

As a public company, we are subject to the reporting requirements of the Exchange Act and are required to implement specific corporate governance practices and adhere to a variety of reporting requirements under Sarbanes-Oxley and the related rules and regulations of the SEC and FDIC, as well as the rules of NASDAQ. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition. Sarbanes-Oxley requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Compliance with these requirements has placed, and will continue to place, additional demands on our legal, accounting, finance and investor relations staff and on our accounting, financial and information systems and has increased our legal and accounting compliance costs as well as our compensation expense as we have been required to hire additional staff and work with additional service providers and advisors in connection with legal, accounting, tax, finance and investor relations matters. As a public company we may have to make certain investments to enhance our investor relations and corporate communications functions. These additional efforts may strain our resources and may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition or results of operations. We have incurred, and expect to continue to incur, additional incremental ongoing and one-time expenses in connection with our transition to a public company. The actual amount of the incremental expenses we will incur may be higher, perhaps significantly, from our current estimates, including as a result of additional costs we may incur that we have not currently anticipated.

Beginning with our annual report on Form 10-K for the year ending December 31, 2020, in accordance with Section 404 of Sarbanes-Oxley, our management will be required to conduct an annual assessment of the effectiveness of our internal control over financial reporting and include a report on these internal controls in the annual reports on Form 10-K we will file with the FDIC. Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal controls until the later of the year following the first annual report required to be filed with the FDIC and the date on which we are no longer an "emerging growth company." When required, this process will require significant documentation of policies, procedures and systems, review of that documentation by our internal auditing and accounting staff and our outside independent registered public accounting firm, and testing of our internal control over financial reporting by our internal auditing and accounting staff and our outside independent registered public accounting firm. Although we are currently subject to similar requirements under the FDIC's regulations for state nonmember banks with total assets of \$1 billion or more, such as us, the process required by Section 404 of Sarbanes-Oxley will involve additional time and attention, may strain our internal resources, and will increase our operating costs. We may experience higher than anticipated operating expenses and outside auditor fees during the implementation of these changes and thereafter. If our

independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our preferred stock could be negatively affected, and we could become subject to investigations by NASDAQ, the SEC, the FDIC or other regulatory authorities, which could require additional financial and management resources.

If we are not able to implement the requirements of Section 404 of Sarbanes-Oxley in a timely and capable manner, we may be subject to adverse regulatory consequences and there could be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. This could have a material adverse effect on our business, financial condition or results of operations.

The financial reporting resources we have put in place may not be sufficient to ensure the accuracy of the additional information we are required to disclose as a publicly listed company.

As a publicly listed company, we are subject to heightened financial reporting standards under GAAP and SEC and FDIC rules, including extensive levels of disclosure, which have required enhancements to the design and operation of our internal control over financial reporting.

If we are unable to meet the demands that are placed upon us as a public company, including the requirements of Sarbanes-Oxley, we may be unable to accurately report our financial results, or report them within the timeframes required by law or stock exchange regulations. Failure to comply with Sarbanes-Oxley, when and as applicable, could also potentially subject us to sanctions or investigations by the SEC, FDIC or other regulatory authorities. If material weaknesses or other deficiencies occur, our ability to accurately and timely report our financial position could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our combined financial statements, a decline in the price of our preferred stock, suspension or delisting of our listed preferred stock, and could have a material adverse effect on our business, results of operations or financial condition. Even if we are able to report our financial statements accurately and in a timely manner, any failure in our efforts to implement the improvements or disclosure of material weaknesses in our future filings with the FDIC could cause our reputation to be harmed and our stock price to decline significantly.

In addition, the JOBS Act provides that, so long as we qualify as an “emerging growth company,” we will be exempt from the provisions of Section 404(b) of Sarbanes-Oxley, which would require that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting. We may take advantage of this exemption so long as we qualify as an “emerging growth company.”

We are an emerging growth company within the meaning of the Exchange Act and because we have decided to take advantage of certain exemptions from various reporting and other requirements applicable to emerging growth companies, our preferred stock could be less attractive to investors.

For as long as we remain an “emerging growth company,” as defined in the JOBS Act, we will have the option to take advantage of certain exemptions from various reporting and other requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404(b) of Sarbanes-Oxley, reduced disclosure obligations regarding executive compensation in our registration statements, periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We have elected to, and expect to continue to, take advantage of certain of these and other exemptions until we are no longer an emerging growth company. In particular, we have elected to use the extended transition period for complying with new or revised accounting standards, which means that the financial statements included elsewhere in this Form 10-K and in our future public filings may not be comparable to the financial statements of companies that comply with effective dates for new or revised accounting standards applicable to public companies that are not “smaller reporting companies,” as that term is defined in the regulations of the SEC.

We will remain an emerging growth company until the earliest of (i) the end of the fiscal year during which we have total annual gross revenues of \$1.07 billion or more, (ii) the end of the fiscal year following the fifth anniversary of the completion of an offering of common stock by us pursuant to an effective registration statement, (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt, and (iv) the end of the first fiscal year in which (A) the market value of our equity securities that are held by non-affiliates exceeds \$700 million as of June 30 of that year, (B) we have been a public reporting company under the Exchange Act for at least twelve calendar months and (C) we have filed at least one annual report on Form 10-K.

As long as MFIN owns a majority of our common stock, we will rely on certain exemptions from the corporate governance requirements of NASDAQ available for “controlled companies.”

We are a “controlled company” within the meaning of the corporate governance listing standards of NASDAQ because MFIN owns 100% of our outstanding common stock. As a controlled company, we have elected, and expect to continue to elect, not to comply with the corporate governance requirements of NASDAQ requiring a fully independent corporate governance and nominating committee and a fully independent compensation committee. Two of our seven directors do not qualify as “independent directors” under the applicable rules of NASDAQ. As a result, holders of our preferred stock will not have certain of the protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of NASDAQ.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease space in Salt Lake City, Utah as our headquarters and for the Recreation Lending, Home Improvement Lending, Medallion Lending and Other segments, and in Bothell, Washington for the Home Improvement Lending segment. We do not own any real property, other than foreclosed properties obtained as a result of lending relationships. We believe that our leased properties, taken as a whole, are in good operating condition and are suitable for our current business operations.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

There is no established trading market for the Bank's common stock.

Holders

The information set forth in Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Form 10-K is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

Not applicable.

Performance Graph

Not applicable.

Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended December 2019, we sold 1,840,000 shares of our Series F Preferred Stock as part of our underwritten initial public offering. The aggregate public offering price was \$46 million, and the aggregate underwriting discount was approximately \$1.8 million. Net proceeds, after underwriting discounts, were approximately \$44.2 million (\$24.00 per share), which we used for general corporate purposes, including, among other things, increasing our capital levels and growing our consumer loan portfolios. The underwriters in the transaction were Sandler O'Neill & Partners, L.P., B. Riley FBR, Inc., Ladenburg Thalmann & Co. Inc., BB&T Capital Markets, a division of BB&T Securities, LLC, and Wedbush Securities Inc. This transaction was exempt from registration under the Securities Act pursuant to Section (3)(a)(2) thereof because the transaction involved securities issued by a bank.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

Not applicable.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical financial data for the periods and as of the dates indicated. We derived our balance sheet and income statement data for the years ended December 2019, 2018, 2017 and 2016 from our audited financial statements. This data should be read in conjunction with the audited financial statements and the notes thereto contained elsewhere in this report and the information contained in Item 7, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

	Year Ended December 31,			
	2019	2018	2017	2016
(dollars in thousands)				
Selected Income Statement Data:				
Interest income	\$ 126,723	\$ 116,073	\$ 111,281	\$ 103,454
Interest expense	22,521	17,844	13,869	11,762
Net interest income	104,202	98,229	97,412	91,692
Provision for loan losses	42,492	50,673	51,282	69,466
Net interest income after provision for loan losses	61,710	47,556	46,130	22,226
Non-interest income (loss)	(2,238)	(9,439)	1,025	3,691
Non-interest expense	33,482	28,879	27,509	24,281
Net income before taxes	25,990	9,238	19,646	1,636
Provision (benefit) for income taxes	5,544	3,572	15,093	(326)
Net income	\$ 20,446	\$ 5,666	\$ 4,553	\$ 1,962
Selected Operating Ratios:				
Return on average assets	1.85%	0.54%	0.42%	0.18%
Return on average equity	11.46%	3.51%	2.71%	1.15%
Net interest margin ⁽¹⁾	9.69%	9.44%	9.08%	8.36%
Efficiency ratio ⁽²⁾	32.84%	32.53%	27.94%	25.46%
Net charge-offs	\$ 42,743	\$ 53,061	\$ 42,684	\$ 38,728
Net charge-offs to average loans	4.30%	5.60%	4.30%	3.78%
Selected Balance Sheet Data:				
Loans:				
Recreation Loans	\$ 699,545	\$ 580,790	\$ 517,347	\$ 468,741
Home Improvement Loans	252,068	187,419	175,942	239,783
Medallion Loans	108,351	153,742	222,806	298,059
Other Loans ⁽³⁾	1,833	1,886	1,044	944
Allowance for loan losses	59,885	60,137	63,416	54,819
Total assets	1,193,230	1,022,512	1,077,354	1,075,958
Funds borrowed ⁽⁴⁾	954,245	848,040	906,748	908,442
Other liabilities ⁽⁵⁾	12,294	7,477	6,376	5,631
Total shareholders' equity	\$ 227,140	\$ 166,995	\$ 164,230	\$ 161,885
Selected Asset Quality Ratios and Data:				
Nonperforming loans to total loans	3.97 %	3.55%	5.69%	5.98 %
Allowance for loan losses to total loans	5.64 %	6.51%	6.91%	5.44 %
Allowance for loan losses to nonperforming loans	141.91 %	183.19%	121.45%	91.02 %
Capital Ratios:				
Tier 1 Capital (to average assets)	19.35 %	15.85%	14.53%	14.47 %
Common Equity Tier 1 (to risk-weighted assets)	13.82 %	14.26%	13.82%	12.20 %
Tier 1 Capital (to risk-weighted assets)	19.83 %	16.90%	16.46%	14.66 %
Total Capital (to risk-weighted assets)	21.13 %	18.21%	17.77%	15.97 %

(1) Net interest margin is the ratio of net interest income to average interest-earning assets. Interest-earning assets includes all interest-bearing accounts, which consists of loans and other interest-earning assets.

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

(3) “Other Loans” include commercial, construction and asset-backed loans.

(4) Excludes \$2,594 of deferred financing costs as of December 2019.

(5) “Other Liabilities” include accrued interest payable, amounts due to affiliates and taxes payable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes thereto presented elsewhere for the years ended December 2019, 2018, and 2017. 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 "Risk Factors" beginning on page 12.

Introduction and Business Overview

We are a Utah-chartered, FDIC-insured industrial bank headquartered in Salt Lake City, Utah. Formed in 2002, we are a wholly owned subsidiary of MFIN, a commercial finance company. We specialize in providing consumer loans through dealers and FSPs for the purchase of RVs, boats and trailers and through contractors and FSPs for the purchase of home improvements such as replacement windows and roofs. Prior to September 2014, we originated loans to finance the purchase of taxi medallions but have since transitioned away from this aspect of our business. We continue to refinance existing Medallion loans in our portfolio as they mature.

In addition to our current activities, in July 2019, we announced a new Strategic Partnership Program, through which the Bank will partner with other companies offering loans and other financial services to their customers. The Strategic Partnership Program is in the early stages of development, and, on March 11, 2020, we signed an agreement with our first Strategic Partnership Program partner. We expect to begin associated activities during 2020.

As of December 2019, we had total assets of \$1.2 billion including a loan portfolio of \$1.0 billion. Consumer loans made up 89.6% of our loan portfolio as of December 2019, \$699.5 million of which was Recreation loans and \$252.1 million of which was Home Improvement loans. Our Medallion loan portfolio decreased 29.5% between December 2018 and December 2019 to \$108.4 million reflecting the Bank's strategy of steadily reducing exposure to this asset type. Equity capital was \$227.1 million as of December 2019, and pre-tax income and after-tax net income was \$26.0 million and \$20.4 million, respectively, for the year ended December 2019.

From time to time since 2017, we have sold loans to third parties in order to manage the size of our balance sheet, keep our capital ratios at targeted levels, and generate gains on sale that help compensate for current Medallion loan provisions and charge-offs. We did not conduct any loan sales in the year ended December 2019. In the future, we may again sell loans when loan production is high and/or secondary market demand offers opportunities for attractive gains on sale.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen, which may negatively affect the Bank's financial position, results of operations, and cash flows. The COVID-19 outbreak in the U.S. may disrupt the Bank's operations through its impact on its employees and borrowers. Disruptions to the Bank's borrowers may impair their ability to fulfill their obligations to the Bank, and result in increased risk of delinquencies, defaults, foreclosures, declining collateral values, loan losses, and other financial impacts. The Bank has taken steps to operate through this crisis, for example, by having employees work remotely, and by continuing to negotiate with borrowers as to payment terms and adjusting its related policies and procedures. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time, but could be material.

Our business is funded primarily through time certificates of deposit originated nationally through a variety of brokered deposit relationships, which offer a low-cost source of funding compared to credit facilities and other funding sources utilized by non-bank lending businesses. We do not originate deposits directly from retail customers and we have no branch operations, which contributes to our low efficiency ratio.

Critical Accounting Estimates

We follow financial accounting and reporting policies that are in accordance with 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 policies that 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 loan losses in future periods, and the inability to collect on outstanding loans could result in increased loan losses.

Allowance for Loan Losses

In analyzing the adequacy of the allowance for loan losses, the Bank uses historical delinquency and actual loss rates with a three-year look-back period for Medallion loans and a one-year look-back period for Recreation loans and Home Improvement loans. The allowance is evaluated on a regular basis by management and 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 that are susceptible to significant revision as more information becomes available.

Our methodology to calculate the general reserve portion of the allowance includes the use of quantitative and qualitative factors. We initially determine an allowance based on quantitative loss factors for loans evaluated collectively for impairment. The quantitative loss factors are based primarily on historical loss rates, after considering loan type, historical loss and delinquency experience. The quantitative loss factors applied in the methodology are periodically re-evaluated and adjusted to reflect changes in historical loss levels or other risks. Qualitative loss factors are used to modify the reserve determined by the quantitative factors and are designed to account for losses that may not be included in the quantitative calculation according to management's best judgment. Performing loans are recorded at book value and the general reserve maintained to absorb expected losses consistent with GAAP.

The Recreation and Home Improvement loan portfolio reserves are calculated consistent with ASC 450, which is designed for homogeneous pools of loans. We segment the portfolios by risk profile in order to reach the necessary level of homogeneity. Our Medallion loans are analyzed on a more granular level, are segmented by jurisdiction, and are sometimes subject to specific reserves as required by ASC 310. All Medallion loans are assigned a credit grade using an 8-point grading system. The credit grading process is subjective and administered by the Bank's loan servicer, MFIN, under the oversight of the Bank's Chief Lending Officer and related Loan Portfolio Review Committee.

All Medallion loans that reach 90 days or more delinquent are added to the Bank's impairment testing list, which necessitates booking a specific allowance reserve for those loans. A loan is 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 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.

We charge off loans in the period that such loans are deemed uncollectible or when they reach 120 days delinquent regardless of whether the loan is a Recreation, Home Improvement or Medallion loan.

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, reserve adequacy is also 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.

Medallion Loan Collateral Valuation

Due to the low volume of market transfer activity as medallion values declined in recent years, the determination of taxi medallion collateral fair value was derived quarterly for each jurisdiction taking into consideration recent market transfer activity, to the extent it was available, as well as a discounted cash flow model when trading activity alone was deemed insufficient or unreliable. In general, recent market transfers published by each jurisdiction were analyzed to derive the median transfer activity value. However, depending on the circumstances, when analyzing transfer activity, transactions which management determined from available information not to be arms'-length were excluded from the calculation of the median transfer value. When discounted cash flow models were used, significant inputs typically included the discount rate, taxi fare/lease revenue, and associated expenses such as vehicle costs, fuel, credit card processing fees, repair costs, and insurance premiums. A higher discount rate, lower taxi fare/lease

revenue and higher associated expenses would each produce a lower fair value. At period end, the transfer activity and, if applicable, discounted cash flow values, were taken into consideration to arrive at a fair value of the medallion collateral in each jurisdiction.

Key Elements for 2019 compared to 2018

Below are key elements of our performance for the year ended December 2019 compared to the year ended December 2018. Results for the year reflected strong performance in our consumer lending segments partially offset by losses in our Medallion loan portfolio, which we actively addressed through aggressive portfolio management practices.

- Net income increased significantly to \$20.4 million for the year ended December 2019 compared to December 2018, due to an increase in net interest income, a decrease in provision for loan losses and a reduction in losses related to loan collateral in the process of foreclosure.
- Loan origination volumes increased 8.6% to \$443.5 million during 2019 compared to 2018, with both of our consumer lending segments experiencing growth.
- Net interest income increased 6.1% to \$104.2 million for the year ended December 2019, primarily due to higher average balances in our consumer loan portfolios as a result of loan origination growth and no loan sales during 2019.
- Our efficiency ratio was largely unchanged at 32.8% for the year ended December 2019, an increase of 0.3 percentage points over the efficiency ratio for the year ended December 2018.
- Medallion loans outstanding declined by 29.5% to \$108.4 million at December 2019 through a combination of loan charge-offs and payment amortization.
- Loan delinquencies 30 days or greater decreased by 56 basis points to 5.12% of period-end loan portfolio balances at December 2019, largely due to decreases in Medallion loan delinquencies, partially offset by increases in Recreation loan delinquency.
- Our net charge-off rate decreased 130 basis points to 4.30% for the year ended December 2019 due to reductions in charge-offs in the Medallion loan portfolio, partially offset by increases in charge-offs in the Recreation loan portfolio. Our provision for loan losses decreased by \$8.2 million, or 16.1%, for the year ended December 2019, primarily due to a lower loan loss reserve for our Medallion loan portfolio, partially offset by higher consumer loan provisions reflecting portfolio growth and higher delinquency and loss rates, particularly for Recreation loans.
- Our Tier 1 capital increased by \$59.1 million and our Tier 1 leverage ratio increased to 19.4% primarily as a result of the preferred stock issued in our initial public offering in December 2019 and net income during the year ended December 2019.

Key Elements for 2018 compared to 2017

Below are key elements of our performance for the year ended December 2018 compared to the year ended December 2017. Results for the year reflected strong performance in our consumer lending segments, partially offset by losses in our Medallion loan portfolio, which we actively addressed through aggressive portfolio management practices.

- Net income remained well below historical levels but increased 24.4% to \$5.7 million for the year ended December 2018. Provision for income taxes decreased \$11.5 million compared to 2017 due to the non-recurrence of the 2017 deferred tax asset write-down related to the Tax Cuts and Jobs Act. Income before income taxes decreased \$10.4 million as a result of losses on sale of repossessed collateral.
- Loan origination volumes decreased 5.1% to \$408.4 million during 2018 compared to 2017, primarily driven by lower volumes in our Home Improvement Lending segment and partially offset by increased volumes in our Recreation Lending segment.
- Net interest income increased 0.8% to \$98.2 million for the year ended December 2018, primarily due to a higher average Recreation loan portfolio balance because of loan origination growth, which was partially offset by a whole loan sale in September 2018 that reduced the sizes of the Recreation and Home Improvement loan portfolios.

- Our efficiency ratio worsened to 32.5% for the year ended December 2018, an increase of 4.6 percentage points over the efficiency ratio for the year ended December 2017, primarily due to investments in corporate infrastructure and new business initiatives.
- Medallion loans outstanding declined by 31.0% to \$153.7 million at December 2018 through a combination of loan charge-offs and payment amortization. The Medallion loan portfolio net of loan loss reserves decreased to \$117.6 million at year end 2018.
- Loan delinquencies 30 days or greater decreased by 132 basis points to 5.68% of period-end loan portfolio balances at December 2018 largely due to Medallion loans becoming delinquent at a slower rate than loan charge-offs.
- Our net charge-off rate increased 130 basis points to 5.60% for the year ended December 2018 as Medallion loans were charged off following prior period impairment. Our provision for loan losses decreased by \$0.6 million, or 1.2%, for the year ended December 2018, primarily due to a lower loan loss reserve for our Medallion loan portfolio, partially offset by higher consumer loan provisions reflecting portfolio growth and higher delinquency and loss rates, particularly for Recreation loans.
- Our Tier 1 capital increased by \$4.1 million as a result of the net income produced by growth in our consumer loan portfolios. Our Tier 1 leverage ratio increased to 15.8% as a result of capital growth and the whole loan sale executed in September 2018.

Results of Operations

Net Income

Net income for the year ended December 2019 was \$20.4 million compared to \$5.7 million for the year ended December 2018. The increase in net income during 2019 over 2018 was due to an increase in net interest income, a decrease in provision for loan losses and a reduction in losses related to loan collateral in the process of foreclosure.

Net income for the year ended December 2018 was \$5.7 million compared to \$4.6 million for the year ended December 2017. The increase in net income during 2018 over 2017 was primarily due to a reduction in income tax expense due to the effects of the Tax Cuts and Jobs Act of 2017 and partially offset by reduced non-interest income as we wrote down the value of taxi medallion collateral.

The returns on average shareholders' equity and average total assets for the year ended December 2019 were 11.5% and 1.9%, respectively, compared to 3.5% and 0.5%, respectively, for the year ended December 2018 and 2.7% and 0.4% for the year ended December 2017.

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Interest income	\$ 126,723	\$ 116,073	\$ 111,281
Interest expense	22,521	17,844	13,869
Net interest income	104,202	98,229	97,412
Provision for loan losses	42,492	50,673	51,282
Net interest income after provision for loan losses	61,710	47,556	46,130
Non-interest income/(loss)	(2,238)	(9,439)	1,025
Non-interest expense	33,482	28,879	27,509
Earnings before provision for income taxes	25,990	9,238	19,646
Provision for income taxes	5,544	3,572	15,093
Net earnings	<u>\$ 20,446</u>	<u>\$ 5,666</u>	<u>\$ 4,553</u>

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 Year Ended December 31,					
	2019		2018		2017	
	\$	%	\$	%	\$	%
	(dollars in thousands)					
Equity to assets		19.03%		16.33%		15.24%
Non-interest expense as a % of average loan receivables		3.37%		3.05%		2.77%
Effective income tax rate		21.33%		38.66%		76.82%
Total loan receivables	1,061,797		923,837		917,139	
Average balances						
Recreation	648,180		567,007		527,846	
Home Improvement	216,747		189,944		207,947	
Medallion	127,459		188,027		256,090	
Other	1,859		2,371		1,250	
Federal Funds Invested	36,444		49,340		41,468	
Securities available for sale	45,283		44,288		38,608	
Net charge-offs						
Recreation	20,535	3.17%	15,428	2.72%	11,824	2.24%
Home Improvement	1,197	0.55%	1,682	0.89%	2,046	0.98%
Medallion	21,014	16.49%	36,845	19.60%	28,834	11.26%
Other	(3)	(0.19%)	(894)	(37.72%)	(20)	(1.63%)
Allowance for loan losses as a % of period-end loan receivables						
Recreation	(27,810)	3.98%	(20,437)	3.52%	(17,950)	3.47%
Home Improvement	(3,847)	1.53%	(3,556)	1.90%	(3,079)	1.75%
Medallion	(28,201)	26.03%	(36,116)	23.49%	(42,384)	19.02%
Other	(27)	1.50%	(28)	1.50%	(3)	0.28%
30+ days past due as a % of period-end loan receivables						
Recreation	42,474	6.07%	30,851	5.31%	25,518	4.93%
Home Improvement	1,554	0.62%	1,171	0.62%	1,498	0.85%
Medallion	10,338	9.54%	20,453	13.30%	37,196	16.69%
Other	—	—%	—	—%	—	—%

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 Year Ended December 31,								
	2019			2018			2017		
	Average Balance	Interest Income/Expense	Average Yield/Rate	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	\$ 36,148	\$ 553	1.53%	\$ 48,650	\$ 631	1.30%	\$ 41,187	\$ 401	0.98%
Securities available for sale	45,283	1,174	2.59%	44,288	1,103	2.49%	38,608	887	2.30%
Loan receivables:									
Recreation	648,180	99,710	15.38%	567,007	89,663	15.81%	527,846	82,083	15.55%
Home Improvement	216,747	20,360	9.39%	189,944	18,035	9.49%	207,947	19,867	9.55%
Medallion	127,459	4,747	3.72%	188,027	6,348	3.38%	256,090	7,994	3.12%
Other	1,859	179	9.64%	2,371	293	12.36%	1,250	49	3.97%
Total loan receivables	994,245	124,996	12.57%	947,349	114,339	12.07%	993,133	109,993	11.08%
Allowance for loan losses	(58,780)			(65,385)			(53,424)		
Net loan receivables	935,465			881,964			939,709		
Total interest-earning assets	\$ 1,075,676	\$ 126,723	11.78%	\$ 1,040,287	\$ 116,073	11.16%	\$ 1,072,928	\$ 111,281	10.37%
Non-interest-earning assets:									
Cash and due from banks	127			128			205		
Accrued interest receivable	7,541			6,809			6,408		
Loan origination fees	16,497			13,223			12,423		
Repossessed inventory – recreation	1,211			1,159			1,148		
Repossessed inventory – taxi medallion	29,189			26,021			15,541		
Other assets held in bankruptcy	—			4,764			6,069		
Deferred and other tax assets, net	11,233			14,842			16,868		
Other assets	22,285			11,864			7,326		
Total assets	\$ 1,104,979			\$ 1,053,712			\$ 1,085,492		
Interest-bearing liabilities:									
Interest-bearing deposit accounts	914,665	22,520	2.46%	884,567	17,837	2.02%	910,038	13,864	1.52%
Borrowings	11	—	2.28%	312	7	2.49%	334	5	1.55%
Total interest-bearing liabilities	\$ 914,676	\$ 22,521	2.46%	\$ 884,879	\$ 17,844	2.02%	\$ 910,372	\$ 13,869	1.52%
Non-interest-bearing liabilities:									
Accrued interest payable	2,041			1,628			1,205		
Other liabilities	7,589			4,943			4,619		
Due to affiliates	692			671			1,026		
Dividends payable	182			182			182		
Taxes payable	1,348			—			—		
Shareholders' Equity	178,451			161,409			168,088		
Total liabilities and Equity	\$ 1,104,979			\$ 1,053,712			\$ 1,085,492		
Interest rate spread			9.32%			9.14%			8.85%
Net interest income		\$ 104,202			\$ 98,229			\$ 97,412	
Net interest margin			9.69%			9.44%			9.08%

	Year Ended December 31, 2019 vs. 2018			Year Ended December 31, 2018 vs. 2017		
	Increase (Decrease) Due to Change In			Increase (Decrease) Due to Change In		
	Average Volume	Average Yield/ Rate	Net Change	Average Volume	Average Yield/ Rate ⁽¹⁾	Net Change

(in thousands)

Interest-earning assets:						
Interest earning cash and equivalents	\$ (191)	\$ 113	\$ (78)	\$ 97	\$ 132	\$ 229
Securities available for sale	26	45	71	141	75	216
Loan receivables:						
Recreation	12,487	(2,439)	10,048	6,193	1,387	7,580
Home Improvement	2,517	(193)	2,324	(1,709)	(123)	(1,832)
Medallion	(2,256)	653	(1,603)	(2,299)	651	(1,648)
Other	(49)	(64)	(113)	139	105	244
Total loan receivables	12,699	(2,043)	10,656	2,324	2,020	4,344
Change in interest income from total interest-earning assets	\$ 12,534	\$ (1,885)	\$ 10,649	\$ 2,562	\$ 2,227	\$ 4,789
Interest-bearing liabilities:						
Interest-bearing deposit accounts	741	3,943	4,684	(514)	4,486	3,972
Borrowings	(7)	(1)	(8)	—	3	3
Change in interest expense from total interest-bearing liabilities	734	3,942	4,676	(514)	4,489	3,975
Total change in net interest income	\$ 11,800	\$ (5,827)	\$ 5,973	\$ 3,076	\$ (2,262)	\$ 814

- 1) The Bank determined that a reclassification was required to correct disclosure of amounts previously reported under the 2018 v. 2017 Average Yield/Rate column for Loan receivables—in the Recreation, Home Improvement, Medallion and Other segments. There was no net change to total net interest income in any period as a result of this reclassification.

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 year ended December 2019, net interest income was \$104.2 million compared to \$98.2 million and \$97.4 million for the years ended December 2018 and December 2017, respectively. 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 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 annual audited financial statements included elsewhere in this Form 10-K for additional information on our revenue recognition policy for interest income.

Interest income increased by \$10.6 million, or 9.2%, for the year ended December 2019 and \$4.8 million, or 4.3%, for the year ended December 2018, driven primarily by growth in Recreation and Home Improvement loans and the changing mix in the total loan portfolio toward consumer loans as the Medallion loan portfolio reduced in size. The increase in interest income for the year ended December 2018 over the year ended December 2017 was reduced by the effects of the whole loan sales in March and December 2017 that decreased the sizes of the Recreation and Home Improvement loan portfolios.

The yield on our average loans outstanding increased to 12.6% for the year ended December 2019 compared to 12.1% for the year ended December 2018 and 11.1% for the year ended December 2017. The yield increases for both years were primarily due to an increase in the percentage of interest-earning assets attributable to Recreation loans, and a decrease in the relative percentage of Medallion loans.

Interest Expense

Interest expense increased by \$4.7 million, or 26.2%, for the year ended December 2019 compared to the year ended December 2018, and \$4.0 million, or 28.7%, for the year ended December 2018 compared to the year ended December 2017, driven

both by growth in our deposit liabilities and increases in our overall cost of funds as market interest rates rose and then declined during 2019 and existing time deposits matured and were replaced. Our cost of funds increased to 2.4% for the year ended December 2019 compared to 2.1% for the year ended December 2018 and 1.5% for the year ended December 2017.

Provision for Loan Losses

Our provision for loan losses was \$42.5 million for the year ended December 2019, compared to \$50.7 million for the prior year, a decrease of \$8.2 million, or 16.1%. The decrease was due to lower Medallion loan provisions partially offset by higher Recreation loan provisions. The 2018 provision for loan losses decreased \$0.6 million, or 1.2%, compared to the \$51.3 million provision for the year ended December 2017. This decrease was due to lower Medallion loan provisions partially offset by higher consumer loan provisions.

Management expects provisions for the Medallion loan portfolio to remain relatively elevated so long as taxi fare income and market values of taxi medallions are depressed. The Recreation and Home Improvement loan portfolio provisions may increase or decrease based on loan growth and changes in portfolio loan performance that indicate increased or decreased inherent risk. In the year ended December 2019, the provisions for the Recreation loan portfolio increased due to growth and increased delinquency and loss, and provisions for the Home Improvement loan portfolio decreased due to reduced losses.

Medallion Valuation Methodology and Loan Provisions

Management uses different valuation methodologies for performing and nonperforming Medallion loans. Performing Medallion loans are carried at book value and are offset by a general reserve, consistent with GAAP. For nonperforming Medallion loans, management uses recent market transfers, a discounted cash flow model or a weighted combination of the two. Due to the low volume of market transfer activity as medallion values declined in recent years, the determination of taxi medallion collateral fair value was derived quarterly for each jurisdiction taking into consideration recent market transfer activity, to the extent it is available, as well as a discounted cash flow model when trading activity alone was deemed insufficient or unreliable. In general, recent market transfers published by each jurisdiction were analyzed to derive the median transfer activity value. However, depending on the circumstances, when analyzing transfer activity, transactions which management determined from available information not to be arms'-length were excluded from the calculation of the median transfer value. When discounted cash flow models were used, significant inputs typically included the discount rate, taxi fare/lease revenue, and associated expenses such as vehicle costs, fuel, credit card processing fees, repair costs, and insurance premiums. A higher discount rate, lower taxi fare/lease revenue and higher associated expenses would each produce a lower fair value. At period end, the transfer activity and, if applicable, discounted cash flow values, were taken into consideration to arrive at a fair value of the medallion collateral in each jurisdiction.

Management's estimated value for New York City (both fleet and individual) taxi medallions declined 7.5% during 2019, from \$186,400 to \$172,500. At December 2019, management's estimated value of the taxi medallions securing the Chicago Medallion loans was \$25,000, which represented a decline of 10.7% from management's estimated value of \$28,000 at December 2018.

Of the collateral for our Medallion loans, New York City (both fleet and individual) taxi medallions experienced the greatest percentage decline in value in the year ended December 2018, a 42.5% drop to \$186,400 from a value of \$324,000 at December 2017. As of December 2018, management estimated the value of Chicago taxi medallions at approximately \$28,000, a decline of 41.7% over the value as of December 2017.

Recreation and Home Improvement Loan Provisions

Provisions for the year ended December 2019 largely reflected loan portfolio growth and changes in loan loss rates, in particular rising loss rates in the Recreation loan portfolio and falling loss rates in the Home Improvement loan portfolio. The provision for Recreation loans for the year ended December 2019 was \$27.9 million compared to \$17.9 million for the year ended December 2018. The provision for Home Improvement loans for the year ended December 2019 was \$1.5 million, compared to \$2.2 million for the year ended December 2018.

For additional information about the provision for loan losses and the allowance, see the discussion of asset quality and the allowance for loan losses below, as well as in "Note 3. Loans and allowance for loan losses" in the annual audited financial statements included elsewhere in this Form 10-K.

Non-Interest Income

For the year ended December 2019, non-interest income was a loss of \$2.2 million, an improvement of \$7.2 million when compared with 2018. The improvement in non-interest income for the year ended December 2019 was the result of the non-recurrence of losses on sale of repossessed collateral which occurred in March 2018, partially offset by the non-recurrence of gains on sale

associated with the sale of whole consumer loans which occurred in September 2018. The loss on sale of repossessed loan collateral occurs as we mark to market value the repossessed taxi medallion collateral, which appears in the financial statements of this Form 10-K as \$29.2 million of the \$30.6 million in “Loan collateral in process of foreclosure” at December 2019.

For the year ended December 2018, non-interest income was a loss of \$9.4 million, a decrease of \$10.5 million when compared with 2017. The decrease in non-interest income in the year ended December 2018 was the result of loss on sale of repossessed collateral driven by a \$10.6 million loss on sale recorded in March 2018, partially offset by a \$2.9 million gain on sale associated with the sale of whole consumer loans in September 2018. In the year ended December 2017, we had a \$6.3 million increase in loss on sale of repossessed loan collateral, partially offset by an increase of \$3.8 million in net gain on sale associated with whole loan sales in our Recreation and Home Improvement loan portfolios. The loss on sale of repossessed loan collateral occurs as we mark to market value the repossessed taxi medallion collateral, which appears in our annual audited financial statements as \$27.2 million of the \$28.7 million in “Loan collateral in process of foreclosure” at December 2018, compared to \$26.2 million of the \$27.7 million at December 2017.

As a portfolio lender, we generally seek to earn net interest income over gains on sale, and factors that affect our decision to engage in loan sales include the availability and attractiveness of sale opportunities and our balance sheet management strategies. It is possible that loan sales of the sizes and types executed in the years ended December 2018 and 2017 may not be pursued in future periods.

Non-Interest Expense

Non-interest expense increased \$4.6 million, or 15.9%, to \$33.5 million for the year ended December 2019 from \$28.9 million for the year ended December 2018. This increase was primarily driven by higher salaries, higher legal expenses related to Medallion loan collection, and higher loan servicing fees.

Non-interest expense increased \$1.4 million, or 5.0%, to \$28.9 million for the year ended December 2018 from \$27.5 million for the year ended December 2017. The increase in the year ended December 2018 was primarily driven by higher salaries, higher legal expenses related to Medallion loan collection, and higher information technology costs.

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Loan servicing	\$ 10,610	\$ 10,211	\$ 9,833
Regulatory fees	1,722	2,349	2,410
Salary and benefits	8,806	7,709	6,575
Write-down of other assets (asset based)	—	(891)	1,476
Other	12,344	9,501	7,215
Total	<u>\$ 33,482</u>	<u>\$ 28,879</u>	<u>\$ 27,509</u>

Transactions with Affiliates

We benefit from services we receive from MFIN and certain other affiliates. In 2010, MFIN formed 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 business development, capital raises, human resources and legal, from MFIN pursuant to a corporate services agreement. Business development costs vary from year to year and we expect that pattern to continue in response to the types of new business opportunities that are available to us. 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. Information technology services that were once provided by MFIN shifted to in-house and third-party resources in the third quarter of 2018. In the years ended December 2019, 2018, and 2017, the Bank held a \$100,000 collateral deposit due to MFIN.

In the year ended December 2019, we compensated MFIN for loan servicing in the amount of \$4.8 million, which was a decrease of \$366,000 over the related compensation in the year ended December 2018. This was due to a decrease in servicing and collection activity associated with Medallion loans during the year. We compensated MFIN in the amount of \$1.0 million for corporate services in the year ended December 2019, an increase of 20.6% over the related compensation in the year ended December

2018. This was due to an increase in business development and capital raising costs during the year, largely related to our initial public offering of preferred stock in December.

In the year ended December 2018, we compensated MFIN for loan servicing in the amount of \$5.2 million, compared to \$5.3 million in the year ended December 2017, which was a decrease of \$82,000. This reflected a decrease in servicing and collection activity associated with Medallion loans in the year ended December 2018, compared to an increase in such activity in the year ended December 2017. We compensated MFIN in the amount of \$849,000 for corporate services in the year ended December 2018, compared to \$865,000 in the year ended December 2017, a decrease of 1.8%. In each of the years ended December 2018 and 2017, the reduction in the amounts of compensation for corporate services paid to MFIN was driven by a decrease in business development costs during the year. See “Certain Relationships and Related-Person Transactions” for further information about these arrangements.

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 beginning January 1, 2017, the Bank makes its estimated tax payments to MFIN instead of directly to the Internal Revenue Service (the “IRS”). This change has not resulted in a material financial impact on the Bank.

In the year ended December 2019, we recognized income tax expense of \$5.5 million reflecting an effective tax rate of 21.33%. The low effective tax rate for 2019 compared to 2018 was due to a settlement with the State of Utah related to prior tax years that reduced taxes owed for 2019.

In the year ended December 2018, we recognized income tax expense of \$3.6 million reflecting an effective tax rate of 38.7%. The elevated effective tax rate for 2018 compared to the federal corporate income tax rate of 21% was due to a \$600,000 additional tax provision taken in the fourth quarter associated with the anticipated resolution of tax litigation with the State of Utah. That tax litigation stemmed from a refund request in the amount of \$2.1 million filed by the Bank in 2013 which was denied by the State of Utah in 2015. The litigation settled in the second quarter of 2019.

We recognized income tax expense for the year ended December 2017 of \$15.1 million reflecting an effective tax rate of 76.8%. On December 20, 2017, the U.S. Congress passed the Tax Cut and Jobs Act of 2017 which was signed by the President on December 22. The Act reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the change in tax law, it was necessary for us to recalculate our deferred tax asset at lower enacted rates, which resulted in a one-time increase to our income tax expense of \$7.4 million for the year ended December 2017.

Segment Results

Based on our internal operating structure, we determined our operations are organized into four reportable segments representing our three core businesses – Recreation Lending, Home Improvement Lending and Medallion Lending – and an Other segment. As we grow and continue to increase our focus on consumer lending while working out our Medallion loan portfolio, we will continually monitor our segment composition, including to account for our new Strategic Partnership Program, which we currently expect will initially be included within our Other segment. Because we have not originated new loans to finance the purchase of taxi medallions since September 2014 and intend, over the long term, to exit that business, we expect to transition to three reporting segments, Recreation Lending, Home Improvement Lending and Other, once activities relating to Medallion Lending cease to meet the criteria for a reporting segment.

Our Recreation Lending segment is a consumer finance business, which 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, which works with contractors and FSPs in order to finance residential home improvements. The Medallion Lending segment was active until September 2014 and is now a liquidating portfolio of commercial loans with taxi medallions as the collateral. The Other segment consists of our remaining operations, including loans that are not Recreation, Home Improvement or Medallion 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-K, 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 is a high-growth prime and non-prime consumer finance business which is a significant source of income for the Bank, accounting for 78.7%, 77.2%, and 73.8% of our interest income for the years ended December 2019, 2018, and 2017, respectively. The loans are secured primarily by RVs, boats and trailers.

	Year Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Gross interest income	\$ 106,139	\$ 94,920	\$ 86,649
Amortization of loan origination costs	(6,429)	(5,257)	(4,566)
Other income/(costs)	7	1,736	2,546
Interest expense	(13,797)	(10,084)	(7,244)
Provision for loan losses	(27,908)	(17,915)	(13,884)
Servicing fees	(7,367)	(6,304)	(5,374)
Salaries	(5,463)	(4,611)	(3,581)
Direct	(1,258)	(1,175)	(999)
Overhead	(4,988)	(3,894)	(3,104)
Net income before taxes	\$ 38,936	\$ 47,416	\$ 50,443
Average loans outstanding	\$ 648,180	\$ 567,007	\$ 527,846
(as a % of average loans outstanding)			
Gross interest income	16.37%	16.74%	16.42%
Amortization of loan origination costs	(0.99)	(0.93)	(0.87)
Other income/(costs)	—	0.31	0.48
Interest expense	(2.13)	(1.78)	(1.37)
Provision for loan losses	(4.31)	(3.16)	(2.63)
Servicing fees	(1.14)	(1.11)	(1.02)
Salaries	(0.84)	(0.81)	(0.68)
Direct	(0.19)	(0.21)	(0.19)
Overhead	(0.77)	(0.69)	(0.59)
Net income before taxes	6.01	8.36	9.56

Net income before taxes decreased \$8.5 million to \$38.9 million in the year ended December 2019 over the year ended December 2018, primarily due to an increase in the level of the allowance for loan loss and a reduction in gain on sale of \$1.7 million from the non-recurrence of the whole loan sale of Recreation loans in September 2018.

Net income before taxes was \$47.4 million in the year ended December 2018, compared to \$50.4 million in the year ended December 2017, a decrease of \$3.0 million due to an increase in provision for loan loss and partly offset by increases in net interest income and gain on sale of loans. Results for the year ended December 2017 reflected portfolio growth and a gain on sale of \$2.5 million from a whole loan sale of Recreation loans in December 2017.

	Year Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Loans Sold	\$ —	\$ 55,979	\$ 67,689
Premium	—	3,191	3,858
Gain on Sale	—	1,725	2,528
% of Income ⁽¹⁾	—%	1.89%	2.99%
Total Income ⁽¹⁾	\$ —	\$ 91,398	\$ 84,629

(1) Income/Total Income is sum of gross interest income, amortization of loan origination costs, and other income/(costs)

As of December 2019, loans originated in connection with Recreation Lending have grown at a compound annual growth rate of 12.7% since 2015 and 22.8% since 2004. The compound annual growth rate helps management see the smoothed growth of the Recreation Lending segment over long periods of time, which helps with long-term planning. The compound annual growth rate also provides investors with information about long-term growth trends. 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. 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 recent quarters as competition increased for prime credit loans. As of December 2019, 2018, and 2017, the weighted average origination FICO scores of our loans outstanding were 648, 642, and 644, respectively, for this portfolio. The weighted average FICO scores at the time of origination for the loans funded in the years ended December 2019, 2018, and 2017 were 661, 655, and 661, respectively.

Recreation loans represented \$699.5 million, or 65.9%, of the Bank's loan portfolio as of December 2019, up from \$580.8 million, or 62.9%, of the Bank's loan portfolio as of December 2018, which was up from \$517.3 million, or 56.4%, as of December 2017. The gross interest income yield of our Recreation loan portfolio was 16.37% for the year ended December 2019, compared to 16.74% and 16.42%, as of December 2018 and 2017, respectively.

The Bank maintains non-exclusive relationships with approximately 3,200 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. 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. Approximately 43% of Recreation Lending's new loan originations in the year ended December 2019 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.

The Recreation loan portfolio consists of thousands of geographically distributed loans with an average loan size of approximately \$13,800. The loans are fixed rate loans with an average loan term at origination of approximately 10 years. The weighted average maturity of our loans outstanding is 8.7 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, California, and Florida, at 18%, 11%, and 10%, respectively, of loans outstanding at December 2019 and 2018 and with no other states over 10%. Recreation loans are secured primarily by RVs and boats, with RV loans making up 61% of the portfolio and boat loans making up 19% of the portfolio at the end of 2019, compared to 59% and 18%, respectively at the end of 2018. 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 determine whether to undertake diversification efforts.

Our Recreation Lending net charge-offs for the year ended December 2019, 2018, and 2017 were 3.17%, 2.72% and 2.24% of average loans outstanding, respectively. The increase in net charge-offs in our Recreation Lending segment from 2017 through December 2019 was due in part to sales of prime-credit loans to a third party in 2017 and 2018, which changed the credit quality mix in the Recreation loan portfolio and reduced the average performing loans outstanding, and due in part to declining credit performance particularly for borrowers with low credit scores at origination. Although net charge-offs have recently increased, in light of the portfolio's non-prime characteristics, they have been stable and low compared to historical levels.

Our Recreation Lending provisions for loan losses for the years ended December 2019, 2018, and 2017 were 4.31%, 3.16% and 2.63% of average loans outstanding, respectively. This increase was largely associated with growth and increased delinquency and loss in the Recreation loan portfolio.

We maintain an allowance for Recreation loan losses that was \$27.8 million, or 3.98%, of the Recreation loan portfolio as of December 2019. 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; swimming pool installations; and solar system installations.

	Year Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Gross interest income	\$ 18,798	\$ 16,722	\$ 18,725
Amortization of loan origination costs	1,561	1,313	1,142
Other income/(costs)	22	1,203	4,677
Interest expense	(4,597)	(3,325)	(2,604)
Provision for loan losses	(1,488)	(2,159)	(928)
Servicing fees	(1,424)	(1,157)	(1,115)
Salaries	(2,881)	(2,519)	(2,323)
Direct	(567)	(597)	(525)
Overhead	(1,383)	(1,108)	(1,035)
Net income before taxes	\$ 8,041	\$ 8,373	\$ 16,014
Average loans outstanding	\$ 216,747	\$ 189,944	\$ 207,947
(as a % of average loans outstanding)			
Gross interest income	8.67 %	8.80 %	9.00 %
Amortization of loan origination costs	0.72	0.69	0.55
Other income/(costs)	0.01	0.63	2.25
Interest expense	(2.12)	(1.75)	(1.25)
Provision for loan losses	(0.69)	(1.14)	(0.45)
Servicing fees	(0.66)	(0.61)	(0.54)
Salaries	(1.33)	(1.33)	(1.12)
Direct	(0.26)	(0.31)	(0.25)
Overhead	(0.64)	(0.58)	(0.50)
Net income before taxes	3.71	4.41	7.70

Net income before taxes decreased \$0.3 million to \$8.0 million in the year ended December 2019 from the year ended December 2018, mostly due to a reduction of \$1.2 million in gain on sale due to the non-recurrence of a whole loan sale of \$45.0 million in September 2018, partly offset by higher net interest income due to portfolio growth.

Net income before taxes was \$8.4 million in the year ended December 2018, compared to \$16.0 million in the year ended December 2017, a decrease of \$7.6 million due to lower average loans outstanding and a significant reduction in gain on sale.

The increase in net income before taxes in the year ended December 2017 over the year ended December 2016 was driven by gains of \$4.6 million on whole loan sales of \$93.9 million and \$59.7 million in March and December 2017, respectively.

	Year Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Loans Sold	\$ —	\$ 44,909	\$ 153,564
Premium	—	1,841	6,795
Gain on Sale	—	1,189	4,634
% of Income ⁽¹⁾	—%	6.18%	18.88%
Total Income ⁽¹⁾	\$ —	\$ 19,238	\$ 24,543

(1) Income/Total Income is sum of gross interest income, amortization of loan origination costs, and other income/(costs)

Home Improvement loans represented \$252.1 million, or 23.7%, of the Bank's loan portfolios as of December 2019, up from \$187.4 million, or 20.3%, of the Bank's loan portfolios as of December 2018, which was up from \$175.9 million, or 19.2%, of the Bank's loan portfolios as of December 2017. As of December 2019, loans originated in connection with Home Improvement Lending have grown at a compound annual growth rate of 1.4% since 2015 and 26.8% since 2012, which is the year in which the segment originated its first loan. The relatively low growth rate since 2015 reflects whole loan sales of Home Improvement loans in June 2016, March 2017, December 2017 and September 2018, plus increased competition for prime credit home improvement loans. The compound annual growth rate helps management see the smoothed growth of the Home Improvement Lending segment over long periods of time, which helps with long-term planning. The compound annual growth rate also provides investors with information about long-term growth trends. Home Improvement Lending provides us with high-quality assets; as of December 2019, 2018, and 2017 the weighted average origination FICO scores of our loans outstanding in this portfolio were 758, 759, and 761, respectively. The weighted average FICO scores at the time of origination for the loans funded in the years ended December 2019, 2018, and 2017 were 754, 764, and 771, respectively. The gross interest income yield of the Home Improvement Lending portfolio was 8.67% for the year ended December 2019, compared to 8.80% and 9.00% for the years ended December 2018 and 2017. The decline in yield between 2017 and 2019 reflects competitive pricing pressure in the home improvement finance niche and a change in loan product origination mix.

The Bank currently has relationships with approximately 700 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. Approximately 41.5% of Home Improvement Lending's new loan originations in the year ended December 2019 were from our top ten contractor and FSP relationships. The Home Improvement loan portfolio is concentrated in swimming pools, roofs, windows, and solar panels at 23%, 21%, 14%, and 12% at December 2019, compared to concentrations in swimming pools, solar panels, roofs, and windows at 31%, 16%, 15%, and 11% of total loans outstanding at December 2018, 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, Ohio, and Florida at 12%, 11% and 10% at December 2019, compared to concentrations in Texas, Florida, Ohio, and California at 15%, 11%, 9%, and 9% of loans outstanding at December 2018, 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, which management uses to determine whether to undertake diversification efforts. Geographic dispersion of the Home Improvement loan portfolio supplements credit quality in reducing risk.

The weighted average maturity of our loans outstanding was 10.2 years as of December 2019 and the average loan size was approximately \$14,500. The average loan term at origination is approximately 11 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 years ended December 2019, 2018 and 2017 were 0.55%, 0.89% and 0.98% of average loans outstanding, respectively. Since we commenced Home Improvement Lending in early 2012, annual net charge-offs have not exceeded 1.12%.

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 pools and solar system 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.

Medallion Lending

Until September 2014, we originated loans to 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.

	Year Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Gross interest income	\$ 4,744	\$ 6,377	\$ 8,085
Amortization of loan origination costs	3	(23)	(91)
Other income/(costs)	(2,266)	(12,365)	(6,203)
Interest expense	(2,489)	(3,022)	(2,964)
Provision for loan losses	(13,100)	(30,576)	(36,490)
Servicing fees	(4,790)	(5,158)	(5,273)
Salaries	(440)	(559)	(610)
Direct	(1,953)	(1,316)	(313)
Overhead	(870)	(1,082)	(1,381)
Net income before taxes	\$ (21,161)	\$ (47,724)	\$ (45,240)
Average loans outstanding	\$ 127,459	\$ 188,027	\$ 256,090
(as a % of average loans outstanding)			
Gross interest income	3.72%	3.39%	3.16%
Amortization of loan origination costs	—	(0.01)	(0.04)
Other income/(costs)	(1.78)	(6.58)	(2.42)
Interest expense	(1.95)	(1.61)	(1.16)
Provision for loan losses	(10.28)	(16.26)	(14.25)
Servicing fees	(3.76)	(2.74)	(2.06)
Salaries	(0.34)	(0.30)	(0.24)
Direct	(1.53)	(0.70)	(0.12)
Overhead	(0.68)	(0.58)	(0.54)
Net income before taxes	(16.60)	(25.38)	(17.67)

The net loss before taxes for our Medallion Lending segment decreased \$26.6 million to a loss of \$21.2 million for the year ended December 2019, compared to a net loss before taxes of \$47.7 million for the year ended December 2018, mostly due to stabilization of the market for taxi medallions and a reduced rate of Medallion loan portfolio deterioration.

The net loss before taxes for our Medallion Lending segment increased \$2.5 million to a loss of \$47.7 million for 2018, compared to a net loss before taxes of \$45.2 million for 2017, due to higher charge-offs and increased provisioning as we experienced Medallion loan deterioration, and lower net interest income as the portfolio reduced in size.

The improvement in net loss before taxes in the year ended December 2017 over the year ended December 2016 was driven by lower charge-offs and provisions reflecting the declining size of the Medallion loan portfolio and a change in provisioning and charge-off methodology.

The Medallion loan portfolio is declining as a result of charge-offs and amortization payments. Our Medallion loan portfolio declined from \$393.9 million at its peak in July 2014 to \$222.8 million, \$153.7 million and \$108.4 million, as of December 2017, 2018 and 2019, respectively. Through conservative portfolio management practices, we aggressively built loan loss reserves to 26.03% of the outstanding portfolio as of December 2019 and charged off a total of \$119.4 million since 2016, and the Medallion loan portfolio shrunk to 9.1% of our total assets as of December 2019, 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.

We expect to have elevated losses in this portfolio even as taxi medallion values stabilize, and, even if values remain stable or slowly increase, elevated loan losses may continue for some time.

	As of December 31,		
	2019	2018	2017
	(in thousands)		
New York City	\$ 104,080	\$ 146,063	\$ 199,177
Newark	3,510	4,255	6,086
Chicago	498	2,876	16,812
Other	263	548	731
Total	<u>\$ 108,351</u>	<u>\$ 153,742</u>	<u>\$ 222,806</u>

Other

The Other segment includes our portfolio of loans that are not Recreation, Home Improvement or Medallion loans, as well as cash, investments and net non-interest earning assets. We expect that our new Strategic Partnership Program will initially be included in our Other segment.

Net income for the Other segment decreased \$1.0 million to \$174,000 in the year ended December 2019 over the year ended December 2018, mostly due to a one-time gain of \$891,000 in the year ended December 2018 related to an other asset held in bankruptcy that did not reoccur in the year ended December 2019.

Net income for the Other segment increased \$2.7 million to \$1.2 million in the year ended December 2018, compared to a net loss of \$1.6 million in the year ended December 2017, mostly due to a gain of \$891,000 and a reduction in write-downs and legal expenses related to the other asset held in bankruptcy, which settled in December 2018.

The net loss in the year ended December 2017 was driven primarily by increased legal expenses related to the other asset held in bankruptcy, which settled in December 2018.

Other loans represented \$1.8 million, or 0.17%, of the Bank's loan portfolios as of December 2019, down from \$1.9 million, or 0.20%, as of December 2018 and up from \$1.0 million, or 0.12%, as of December 2017. The increase in Other loans in the year ended December 2018 was due to a new real estate loan made as part of a Medallion loan workout and a reduction in Community Reinvestment Act loans.

Investment Securities

All of the Bank's investment securities were classified as available-for-sale at December 2019, 2018 and 2017, and are reported in our financial statements at fair value. We maintain a portfolio of investment securities consisting of U.S. Treasuries and agency securities for liquidity purposes, and state and municipal securities held to comply with the Community Reinvestment Act.

	As of December 31,					
	2019		2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)					
Mortgage-backed securities, principally obligations of U.S. federal agencies	\$ 36,335	\$ 36,634	\$ 32,184	\$ 31,456	\$ 32,749	\$ 32,442
State and municipalities	12,279	12,364	14,239	13,868	11,098	11,036
Total	<u>\$ 48,614</u>	<u>\$ 48,998</u>	<u>\$ 46,423</u>	<u>\$ 45,324</u>	<u>\$ 43,847</u>	<u>\$ 43,478</u>

Unrealized gains and losses, net of the related tax effect, on available-for-sale securities that are not other-than-temporarily impaired are excluded from earnings and are reported as a separate component of comprehensive income (loss) until realized. As of December 2019, 2018 and 2017, our investment securities had gross unrealized gains of \$597,000, \$50,000 and \$99,000, respectively, and gross unrealized losses of \$213,000, \$1.1 million and \$468,000, respectively.

	As of December 31, 2019				
	Due in 1 Year or Less	Due After 1 through 5 Years	Due After 5 through 10 Years	Due After 10 Years	Total
	(in thousands)				
Mortgage-backed securities, principally obligations of U.S. federal agencies	\$ 1,994	\$ 10,036	\$ 10,072	\$ 14,532	\$ 36,634
State and municipalities	35	245	29	12,055	12,364
Total	<u>\$ 2,029</u>	<u>\$ 10,281</u>	<u>\$ 10,101</u>	<u>\$ 26,587</u>	<u>\$ 48,998</u>

	As of December 31, 2018				
	Due in 1 Year or Less	Due After 1 through 5 Years	Due After 5 through 10 Years	Due After 10 Years	Total
	(in thousands)				
Mortgage-backed securities, principally obligations of U.S. federal agencies	\$ 1	\$ 8,478	\$ 11,178	\$ 11,799	\$ 31,456
State and municipalities	25	356	40	13,447	13,868
Total	<u>\$ 26</u>	<u>\$ 8,834</u>	<u>\$ 11,218</u>	<u>\$ 25,246</u>	<u>\$ 45,324</u>

As of December 2019 and December 2018, we 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 our equity.

Loan Portfolios

Total loans increased by \$138 million to \$1.1 billion as of December 2019, from \$0.9 billion as of December 2018, as a result of Recreation and Home Improvement loan growth, partially offset by the continued reduction in Medallion loan balances. Total loans increased by \$6.7 million as of December 2018 from \$917.1 million as of December 2017 due to consumer loan growth, which was mostly offset by the reduction in Medallion loan balances and whole consumer loan sales. Our total loan-to-deposit ratio increased to 111.3% as of December 2019 from 108.9% as of December 2018, after increasing from 101.1% as of December 2017. The increases in the loan-to-deposit ratio were largely due to higher liquidity levels from the March and September 2018 loan sales and 2019 initial public offering of preferred stock.

	As of December 31,					
	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
Loan receivables						
Recreation	\$ 699,545	65.88%	\$ 580,790	62.87%	\$ 517,347	56.41%
Home Improvement	252,068	23.74%	187,419	20.29%	175,942	19.18%
Medallion	108,351	10.21%	153,742	16.64%	222,806	24.29%
Other	1,833	0.17%	1,886	0.20%	1,044	0.12%
Total	<u>\$ 1,061,797</u>	<u>100.00%</u>	<u>\$ 923,837</u>	<u>100.00%</u>	<u>\$ 917,139</u>	<u>100.00%</u>

As of December 2019, 2018 and 2017, the Recreation loan portfolio represented 65.9%, 62.9% and 56.4% of outstanding loan balances, while our Home Improvement loan portfolio represented 23.7%, 20.3% and 19.2% and Medallion loan portfolio represented 10.2%, 16.6% and 24.3% 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.

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 approximately 37 months while the average life of our Home Improvement loans is projected to be approximately 33 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 portfolio 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 annualized projected monthly loss assumption is 317 basis points and the prepayment speed assumption is 1.70% per month. For Home Improvement loans, the annualized projected monthly

loss assumption is 55 basis points and the prepayment speed assumption is 2.28% per month. For comparison, the average maturity is based on the contractual terms of the loans in each portfolio.

As of December 31, 2019										
Projected Months to Maturity										
	0-3 Months	4-6 Months	7-12 Months	13-24 Months	25-36 Months	37-48 Months	49-60 Months	60+ Months	Total	Average Life (Months)
(in thousands)										
Recreation	\$ 52,734	\$ 49,185	\$ 88,178	\$ 144,638	\$ 108,833	\$ 79,776	\$ 57,812	\$ 118,389	\$ 699,545	37
Home Improvement	23,639	22,112	38,328	58,074	39,108	26,044	17,122	27,641	252,068	33
Medallion	35,895	3,210	16,114	24,582	5,905	15,998	6,647	—	108,351	
Other	1,833	—	—	—	—	—	—	—	1,833	
Total	\$ 114,101	\$ 74,507	\$ 142,620	\$ 227,294	\$ 153,846	\$ 121,818	\$ 81,581	\$ 146,030	\$ 1,061,797	

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, when classified as a Troubled Debt Restructuring ("TDR"), or when otherwise impaired.

	Performing	Nonperforming	Total
(in thousands)			
As of December 31, 2019			
Recreation	\$ 691,644	\$ 7,901	\$ 699,545
Home Improvement	251,883	185	252,068
Medallion	74,236	34,115	108,351
Other	1,833	—	1,833
Total	\$ 1,019,596	\$ 42,201	\$ 1,061,797
As of December 31, 2018			
Recreation	\$ 575,165	\$ 5,625	\$ 580,790
Home Improvement	187,282	137	187,419
Medallion	126,677	27,065	153,742
Other	1,886	—	1,886
Total	\$ 891,010	\$ 32,827	\$ 923,837
As of December 31, 2017			
Recreation	\$ 512,219	\$ 5,128	\$ 517,347
Home Improvement	175,580	362	175,942
Medallion	176,081	46,725	222,806
Other	1,044	—	1,044
Total	\$ 864,924	\$ 52,215	\$ 917,139

The increase in the percentage and absolute value of nonperforming Recreation and Home Improvement loans in December 2019 was driven by an overall increase in consumer loan origination volumes and deterioration in credit performance for Recreation loans, in particular. The increase in the percentage and absolute value of nonperforming Medallion loans in December 2019 was driven by loans related to three large relationships being classified as TDRs.

For Medallion loans, we also assign individual credit ratings ranging from 1 (lowest risk) to 8 (highest risk and a designated charge-off) as an indicator of credit quality. For period-end numbers, the highest assigned rating for any loan will be a 7 because any 8-rated loans were charged off at month end. These ratings are based on specific risk factors, including (i) historical and projected financial results of the borrower, (ii) market conditions of the taxi industry that may affect the borrower's future financial performance, (iii) business experience of the borrower's management, and (iv) the borrower's payment history with us.

	<u>Pass Rating 1-4</u>	<u>Special Mention Rating 5</u>	<u>Substandard Rating 6</u>	<u>Doubtful Rating 7</u>	<u>Total</u>
	(in thousands)				
As of December 31, 2019					
Jurisdiction:					
New York City	\$ 41,884	\$ 32,749	\$ 29,447	\$ —	\$ 104,080
Newark	1,157	725	1,628	—	3,510
Chicago	29	71	398	—	498
Other	47	216	—	—	263
Total	<u>\$ 43,117</u>	<u>\$ 33,761</u>	<u>\$ 31,473</u>	<u>\$ —</u>	<u>\$ 108,351</u>
As of December 31, 2018					
Jurisdiction:					
New York City	\$ 77,280	\$ 25,009	\$ 41,714	\$ 2,060	\$ 146,063
Newark	2,311	238	1,706	—	4,255
Chicago	1,388	798	690	—	2,876
Other	366	135	47	—	548
Total	<u>\$ 81,345</u>	<u>\$ 26,180</u>	<u>\$ 44,157</u>	<u>\$ 2,060</u>	<u>\$ 153,742</u>
As of December 31, 2017					
Jurisdiction:					
New York City	\$ 145,223	\$ 22,412	\$ 29,850	\$ 1,692	\$ 199,177
Newark	4,207	261	1,337	281	6,086
Chicago	4,315	1,999	10,498	—	16,812
Other	484	141	106	—	731
Total	<u>\$ 154,229</u>	<u>\$ 24,813</u>	<u>\$ 41,791</u>	<u>\$ 1,973</u>	<u>\$ 222,806</u>

Impaired Loans and Troubled Debt Restructurings

Our loss mitigation strategies sometimes result in rate reductions, principal forgiveness, extensions or other actions, which may cause a related loan to be classified as a TDR and also be impaired. Loans classified as TDRs are recorded at their present value with impairment measured as the difference between the loan balance and the discounted present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan.

Medallion loan TDRs are placed on nonaccrual status until the Bank believes repayment under the revised terms is reasonably assured and a sustained period of repayment performance has been achieved (typically six months for a monthly amortizing loan). For TDRs that are accruing interest, interest income is accounted for in the same manner as other accruing loans. The TDR classification remains on the loan until it is paid in full or liquidated. As TDRs, they are subject to analysis for specific reserves and are individually evaluated. If determined to be impaired, one of the following standard three impairment measurement methods as of the evaluation date are used: (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral less selling costs if the loan is collateral-dependent.

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 December 31,		
	2019	2018	2017
(dollars in thousands)			
Loans on nonaccrual:			
Recreation	\$ 5,173	\$ 5,625	\$ 5,005
Home Improvement	185	137	362
Medallion	1,905	12,439	9,734
Other	—	—	—
Total	<u>\$ 7,263</u>	<u>\$ 18,201</u>	<u>\$ 15,101</u>
Troubled debt restructured loans:			
Recreation ⁽¹⁾	\$ 2,728	\$ —	\$ 123
Home Improvement	—	—	—
Medallion	32,210	14,626	35,741
Other	—	—	—
Total	<u>\$ 34,938</u>	<u>\$ 14,626</u>	<u>\$ 35,864</u>
Other repossessed inventory - Recreation	\$ 1,476	\$ 1,503	\$ 1,526
Other repossessed inventory - Medallion	\$ 29,163	\$ 27,220	\$ 26,181
Other assets held in bankruptcy	\$ —	\$ —	\$ 5,161
Total nonperforming assets	<u>\$ 72,840</u>	<u>\$ 61,550</u>	<u>\$ 83,833</u>
Asset Quality Ratios:			
Total nonaccrual loans to total loans	1.02%	2.36%	3.56%
Total nonperforming assets to total assets	6.10%	6.02%	7.90%
Allowance for loan losses to nonaccrual loans	552.81%	275.74%	194.10%

- (1) In the year ended December 2019, we changed our accounting methodology for Chapter 13 Recreation loan bankruptcies, and we now account for such Recreation loans as TDRs. Prior to this change, such Recreation loans were placed on nonaccrual status, but were not treated as TDRs. The numbers for prior years have not been revised to reflect this change in accounting methodology.

Significant nonaccrual loans as of December 2019 and December 2018 included 9 and 32 Medallion loans totaling \$3.1 million and \$16.0 million, respectively, that reached 90 days or more in delinquency. Each nonaccrual Medallion loan is actively managed by the Bank, and each Medallion loan is tested for impairment each month. If the loan balance exceeds the value determined by the impairment measurement method used, a specific allocation is recorded to the allowance for loan losses for each such Medallion loan. The allowances for loan losses for the Recreation and Home Improvement loan portfolios do not include specific allocations for nonaccrual loans.

As of December 2019 and December 2018, loans past due 90 days or more included 3 and 20 Medallion loans totaling \$0.3 million and \$14.2 million, respectively, for which we were engaged in workout negotiations.

Our repossessed assets as of December 2019 and December 2018 and 2017 were \$30.6 million, \$28.7 million and \$27.7 million, respectively. The increases were solely driven by the repossession of taxi medallions.

Delinquencies

Loan delinquencies of 30 days or more as a percentage of period-end loan balances outstanding decreased to 5.12% as of December 2019, as compared to 5.68% as of December 2018 and 7.00% as of December 2017. The 56 basis point decrease in the year ended December 2019 was driven by a decrease in delinquencies for the Medallion loan portfolio as nonperforming Medallion loans were charged-off, partially offset by an increase in delinquency for the Recreation loan portfolio. The 132 basis point decrease in the year ended December 2018 compared to the year ended December 2017 was largely due to a decrease in Medallion loan delinquency as nonperforming Medallion loans were charged-off and a decrease in delinquency in the Home Improvement loan portfolio, partially offset by an increase in delinquency for the Recreation loan portfolio.

	Current	30-59	60-89	90+	Total
	(in thousands)				
As of December 31, 2019					
Recreation	\$ 657,071	\$ 27,936	\$ 8,603	\$ 5,935	\$ 699,545
Home Improvement	250,514	938	431	185	252,068
Medallion	98,013	9,438	556	344	108,351
Other	1,833	—	—	—	1,833
Total	<u>\$ 1,007,431</u>	<u>\$ 38,312</u>	<u>\$ 9,590</u>	<u>\$ 6,464</u>	<u>\$ 1,061,797</u>
As of December 31, 2018					
Recreation	\$ 549,939	\$ 20,189	\$ 6,395	\$ 4,267	\$ 580,790
Home Improvement	186,247	734	301	137	187,419
Medallion	133,289	5,448	839	14,166	153,742
Other	1,886	—	—	—	1,886
Total	<u>\$ 871,361</u>	<u>\$ 26,371</u>	<u>\$ 7,535</u>	<u>\$ 18,570</u>	<u>\$ 923,837</u>
As of December 31, 2017					
Recreation	\$ 491,829	\$ 16,682	\$ 5,196	\$ 3,640	\$ 517,347
Home Improvement	174,444	871	268	359	175,942
Medallion	185,610	13,859	10,809	12,528	222,806
Other	1,044	—	—	—	1,044
Total	<u>\$ 852,927</u>	<u>\$ 31,412</u>	<u>\$ 16,273</u>	<u>\$ 16,527</u>	<u>\$ 917,139</u>

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.

	Year Ended December 31,		
	2019	2018	2017
Recreation	3.17%	2.72%	2.24%
Home Improvement	0.55%	0.89%	0.98%
Medallion	16.49%	19.60%	11.26%
Other	(0.19%)	(37.72%)	(1.63%)

Our net charge-offs during the year ended December 2019 decreased to \$42.7 million compared to \$53.1 million in the year ended December 2018. We recorded \$21.0 million in total Medallion loan charge-offs for the year ended December 2019, \$20.8 million in the New York City Medallion loan portfolio and \$435,000 in the Chicago Medallion loan portfolio. The increase in Recreation loan charge-offs to \$20.5 million in the year ended December 2019 was due to portfolio growth and weakening credit performance by borrowers in the lowest non-prime credit tiers, to which management responded by tightening underwriting standards.

Our net charge-offs during the year ended December 2018 increased to \$53.1 million compared to \$42.7 million in the year ended December 2017. We recorded \$36.8 million in total Medallion loan charge-offs for the year ended December 2018, consisting

of \$27.7 million in the New York City Medallion loan portfolio and \$8.7 million in the Chicago Medallion loan portfolio. The increase in Recreation loan charge-offs to \$15.4 million in the year ended December 2018 was due to portfolio growth and lower portfolio credit quality related to origination mix associated with whole loan sales. Net charge-offs in the year ended December 2017 were driven primarily by Medallion loan charge-offs of \$28.8 million and Recreation loan charge-offs of \$11.8 million.

Allowance for Loan Losses

The allowance is maintained at a level estimated by management to absorb probable losses inherent in the loan portfolios and is based on management's continuing evaluation of the portfolio, the related risk characteristics, and the overall economic and environmental conditions affecting the portfolios. The estimation is inherently subjective as it requires measurements that are susceptible to significant revision as more information becomes available. As of December 2019, 2018 and 2017, our allowance totaled \$59.9 million, \$60.1 million and \$63.4 million, respectively, which represented 5.64%, 6.51%, and 6.91% of total loans, respectively. The decrease in the allowance for loan losses as of December 2019 and December 2018 was primarily driven by a decrease in the size of the reserve for Medallion loans due to declines in the size of the portfolio, partially offset by higher provisions in the Recreation loan portfolio associated with growth and increased delinquency and loss in that portfolio.

For a summary of our accounting methodologies relating to the allowance for loan losses, see the Allowance for Loan Losses section of our significant accounting policies in "Note 1. Organization and summary of significant accounting policies" in the annual audited financial statements included elsewhere in this Form 10-K.

Annually, we analyze our allowance methodology to assess whether updates are necessary based on various considerations including current market conditions, portfolio trends and industry information. Historically, proxy loss factors based on current industry studies were utilized in the Medallion loan portfolio's general reserve calculation.

	As of December 31,											
	2019				2018				2017			
	Loan Amount	%	Allowance Amount	Allowance as a % of Loan Amount	Loan Amount	%	Allowance Amount	Allowance as a % of Loan Amount	Loan Amount	%	Allowance Amount	Allowance as a % of Loan Amount
	(dollars in thousands)											
Loan receivables:												
Recreation	\$ 699,545	65.88%	\$ 27,810	3.98%	\$ 580,790	62.87%	\$ 20,437	3.52%	\$ 517,347	56.41%	\$ 17,950	3.47%
Home Improvement	252,068	23.74%	3,847	1.53%	187,419	20.29%	3,556	1.90%	175,942	19.18%	3,079	1.75%
Medallion	108,351	10.21%	28,201	26.03%	153,742	16.64%	36,116	23.49%	222,806	24.29%	42,384	19.02%
Other	1,833	0.17%	27	1.50%	1,886	0.20%	28	1.50%	1,044	0.12%	3	0.28%
Total	<u>\$1,061,797</u>	<u>100.00%</u>	<u>\$ 59,885</u>	<u>5.64%</u>	<u>\$ 923,837</u>	<u>100.00%</u>	<u>\$ 60,137</u>	<u>6.51%</u>	<u>\$ 917,139</u>	<u>100.00%</u>	<u>\$ 63,416</u>	<u>6.91%</u>

As of December 2019, the remaining New York City Medallion loan portfolio balance was \$104.1 million with an associated allowance of \$27.0 million, leaving a net New York City Medallion loan exposure of \$77.1 million. As of December 2019, the remaining Chicago Medallion loan portfolio had a balance of \$498,000 and an associated allowance of \$365,000, leaving a net loan exposure of \$133,000.

As of December 2018, the remaining New York City Medallion loan portfolio balance was \$146.0 million with an associated allowance of \$33.1 million, leaving a net New York City Medallion loan exposure of \$112.9 million. As of December 2018, the remaining Chicago Medallion loan portfolio had a balance of \$2.9 million and an associated allowance of \$2.0 million, leaving a net loan exposure of \$900,000.

	Year Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Beginning balance - ALLL	\$ 60,137	\$ 63,416	\$ 54,819
Charge-offs:			
Recreation	27,545	21,385	16,449
Home Improvement	2,915	2,850	3,160
Medallion	24,263	37,322	30,120
Other	—	—	—
Total charge-offs	<u>\$ 54,723</u>	<u>\$ 61,557</u>	<u>\$ 49,729</u>
Recoveries:			
Recreation	\$ 7,011	\$ 5,956	\$ 4,624
Home Improvement	1,718	1,168	1,114
Medallion	3,248	478	1,286
Other	3	3	21
Total recoveries	<u>\$ 11,980</u>	<u>\$ 7,605</u>	<u>\$ 7,045</u>
Net charge-offs	\$ 42,743	\$ 53,952	\$ 42,684
Provision	\$ 42,492	\$ 50,673	\$ 51,282
Ending balance - ALLL	\$ 59,885	\$ 60,137	\$ 63,416
Ratios:			
ALLL to total loans	5.64%	6.51%	6.91%
Net charge-offs to average loans	4.30%	5.70%	4.30%

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.

	Period Ended December 31,								
	2019			2018			2017		
	Average Balance	%	Average Rate	Average Balance	%	Average Rate	Average Balance	%	Average Rate
	(dollars in thousands)								
Interest-bearing deposit accounts	\$ 914,665	100.00%	2.46%	\$ 884,567	99.96%	2.02%	\$ 910,038	99.96%	1.52%
Borrowings	11	—%	2.28%	312	0.04%	2.49%	334	0.04%	1.55%
Total interest-bearing liabilities	\$ 914,676	100.00%	2.46%	\$ 884,879	100.00%	2.02%	\$ 910,372	100.00%	1.52%

The increase in the average interest rate on interest-bearing deposits from 1.52% as of December 2017 to 2.02% as of December 2018, and 2.46% as of December 2019 is 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 \$100,000, originated nationally through a variety of deposit broker relationships. 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 December 2019 and December 2018, the weighted average maturity of our time certificates of deposit was 685 days and 628 days, respectively. The increase in the weighted average maturity as of December 2019 compared to December 2018 was related to the increase in liquidity due to the effects from the sale of assets in 2018 and the receipt of proceeds from our initial public offering of preferred stock in 2019. 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 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. See “Supervision and Regulation—Brokered Deposits.” As described below, we seek to maintain our capital ratios well above the quantitative thresholds for well-capitalized status.

Short-Term Borrowings

Our short-term borrowings consist of lines of credit offered by our correspondent banks to address temporary funding needs when it is not feasible to acquire time certificates of deposit through our network of brokers. As of December 2019 and December 2018, we had two active lines of credit with credit limits of \$25.0 million and \$20.0 million, giving us a total of \$45.0 million in short-term borrowing capacity. As of December 2017, we had two active lines of credit with credit limits of \$15.0 million and \$10.0 million, giving us a total of \$25.0 million in short-term borrowing capacity. The lines allow us to advance funds and leave them outstanding for as long as 14 days before we are required to retire the balances.

As of December 2019, 2018, and 2017, there were no drawn amounts on these lines of credit. We used one of the facilities on one occasion in the year ended December 2019 for a total of 1 day with an outstanding balance of \$4.0 million. We used one of the facilities on three occasions in the year ended December 2017 for a total of 13 days and an average balance of \$9.4 million. The other 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 year ended December 2019 or in the year ended December 2018.

Liquidity

We seek to ensure that we have adequate liquidity to sustain business operations, fund asset growth, and to 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 strategy of matching maturities of deposits and loans, maintaining cash and securities at a minimum of 5% of total assets, limiting net loans to 115% of total borrowings, 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 December 2019 and December 2018 had \$99.1 million and \$79.2 million of cash and federal funds sold and agency residential mortgage-backed securities compared to \$153.6 million of liquid assets and investment securities as of December 2017. The increase in cash and investments as of December 2019 compared to December 2018 was due to the receipt of proceeds from the sale of shares of our Series F preferred stock. The decrease in cash and investments as of December 2018 compared to December 2017 was mostly due to the non-recurrence of excess short-term liquidity subsequent to a December 2017 whole loan sale. As additional sources of liquidity, as of December 2019 and December 2018, we had an aggregate of \$45.0 million of undrawn capacity in credit facilities from private lenders. See “Short-Term Borrowings” 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 will maintain a Tier 1 leverage ratio of at least 15%, which is also 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 December 2019, our common equity Tier 1, Tier 1 and Total risk-based capital ratios were 13.8%, 19.8% and 21.1%, respectively, and we had a Tier 1 capital to total assets leverage ratio of 19.4%. As of December 2018, our common equity Tier 1, Tier 1 and Total risk-based capital ratios were 14.3%, 16.9% and 18.2%, respectively, and we had a Tier 1 capital to total assets leverage ratio of 15.8%.

	As of December 31, 2019		As of December 31, 2018		Minimum Regulatory Requirements as of December 31, 2018	Minimum Regulatory Requirements as of December 31, 2019	Well- Capitalized Requirements
	Amount	Ratio	Amount	Ratio			
	(dollars in thousands)						
Tier 1 leverage capital	\$ 226,975	19.4%	\$ 167,911	15.8%	4.0%	4.0%	5.0%
CET 1 risk-based capital	158,187	13.8%	141,608	14.3%	6.4%	7.0%	6.5%
Tier 1 risk-based capital	226,975	19.8%	167,911	16.9%	7.9%	8.5%	8.0%
Total risk-based capital	241,842	21.1%	180,917	18.2%	9.9%	10.5%	10.0%

Notes

The minimum risk-based ratios as of December 31, 2018 reflect the 75% phase-in of the capital conservation buffer of 2.5%, and the risk-based ratios as of December 31, 2019 reflect the capital conservation buffer of 2.5%. The “well-capitalized” requirements were the binding requirements for risk-based capital ratios as of December 2018 because of the transitional provisions then applicable to the capital conservation buffer and were the binding requirements for the Tier 1 leverage ratio as of both December 2019 and December 2018.

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 possibly 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 deposits, failure to maintain “well-capitalized” status would have a material adverse effect on our business, results of operations and financial condition.

In December 2019, we paid a dividend of \$1.5 million to MFIN, the sole shareholder of the Bank’s common stock.

We paid dividends on our Series E Preferred Stock issued to the U.S. Treasury under the Small Business Lending Fund Program (“SBLF”) of \$2.4 million in each of the years ended December 2019, 2018, and 2017. 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 after July 21, 2021, 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 NASDAQ 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 December 2019, our risk-based capital ratios were above the regulatory minimums that incorporated the 2.5% capital conservation buffer.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that require future cash payments. Our future cash payments associated with our contractual obligations at December 2019 are summarized below.

	<u>Less Than 1</u> <u>Year</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>More than 5</u> <u>Years</u>	<u>Total</u>
	(in thousands)				
Brokered Certificate of Deposits ⁽¹⁾	\$ 312,993	\$ 435,470	\$ 205,782	\$ —	\$ 954,245
Purchase Obligations	—	—	—	—	—
Lease Obligations	559	1,158	1,102	1,677	4,496
Total Contractual Obligations	<u>\$ 313,552</u>	<u>\$ 436,628</u>	<u>\$ 206,884</u>	<u>\$ 1,677</u>	<u>\$ 958,741</u>

(1) Excludes \$2,594 of deferred financing costs.

Off-Balance Sheet Arrangements and Unfunded Lending Commitments

We do not have any significant off-balance sheet arrangements, including guarantees of third-party obligations. Guarantees are contracts or indemnification agreements that contingently require us to make a guaranteed payment or perform an obligation to a third party based on certain trigger events. As of December 2019 and December 2018, we had not recorded any contingent liabilities in our financial statements related to any guarantees. As of December 2019 and December 2018, we had no unfunded lending commitments. In each of our segments, we make installment loans and do not offer credit facilities or other products that would commit us to providing credit in the future. Management does not currently enter into derivatives contracts associated with lending or hedging in the normal course of business.

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 audited financial statements included elsewhere in this Form 10-K.

ITEM 7A. 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. Senior 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 (e.g., we do not presume rates will fall below zero percent), 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 at November 30, 2019	The following estimated percentage increase/(decrease) to net interest income would result
Down 100 basis points	(0.48)%
Up 100 basis points	0.46%
Down 200 basis points	(2.34)%
Up 200 basis points	0.91%
Down 300 basis points	(4.59)%
Up 300 basis points	0.42%
Down 400 basis points	(6.84)%
Up 400 basis points	(1.01)%

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 November 30, 2019
Down 100 basis points	0.74%
Up 100 basis points	(0.97)%
Down 200 basis points	7.23%
Up 200 basis points	(2.27)%
Down 300 basis points	16.56%
Up 300 basis points	(0.44)%
Down 400 basis points	26.28%
Up 400 basis points	4.43%

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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the financial statements set forth under Item 15 in this Form 10-K, which financial statements are incorporated herein by reference in response to this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 2019 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 Office and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

This Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the FDIC and SEC for newly public companies and our status as an emerging growth company under the JOBS Act.

Changes in Internal Control

There were no changes in our internal controls over financial reporting during the quarter ended December 2019 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table sets forth biographical information regarding our directors and executive officers:

Name	Age⁽¹⁾	Position
Alvin Murstein	85	Chairman of the Board
Andrew M. Murstein	55	Director
John Everets	73	Director
Brent O. Hatch	61	Director
Robert M. Meyer	74	Director
J. Lawrence Richards	67	Director
John M. Taggart	68	Director
Donald S. Poulton	66	President and Chief Executive Officer
Trent E. Hudson	51	Senior Vice President and Chief Financial Officer
D. Justin Haley	46	Executive Vice President and Chief Operating Officer
Steven M. Hannay	54	Senior Vice President and Chief Lending Officer
John T. Taylor	62	Senior Vice President of Strategic Partnerships

(1) As of March 30, 2020

A brief biography of each person who serves as a director or executive officer of the Bank is set forth below:

Alvin Murstein, the Chairman of the Board, has served on the Board of Medallion Bank since 2003 and as the Chairman of the board of directors of MFIN since its founding in 1995 and as the Chief Executive Officer since 1996. Mr. Murstein brings to the Board of Medallion Bank over 60 years of experience in the ownership, management and financing of taxi medallions and other commercial businesses, as well as over 20 years of experience managing a public company. During his time in the industry, Mr. Murstein has been Chairman of the board of directors and Chief Executive Officer of Medallion Funding LLC, formerly known as Medallion Funding Corp., since its founding in 1979 and also currently serves, and has previously served, as officer and director of certain other wholly owned subsidiaries of MFIN. In addition to his work at MFIN and its affiliates, Mr. Murstein also served on the board of directors of the Strober Organization, Inc., a building supply company, from 1988 to 1997. Mr. Alvin Murstein is the father of Mr. Andrew M. Murstein. Mr. Murstein holds a bachelor's degree and an M.B.A. from New York University. He serves as a trustee of the not-for-profit Parker Jewish Institute for Health Care and Rehabilitation.

Andrew M. Murstein, a member of the Board, has served on the Board of Medallion Bank since 2003. Mr. Murstein brings to the Board of Medallion Bank over 30 years of experience in the ownership, management and financing of taxi medallions and other commercial businesses, as well as over 20 years of experience managing a public company. He has been President of MFIN since its founding in 1995 and has been on the board of directors of MFIN since 1997, also having served in the positions of Chief Operating Officer since July 2016 and Chief Credit Officer from July 2016 to April 2017. Mr. Murstein also currently serves, and has previously served, as officer and director of certain wholly owned subsidiaries of MFIN. Mr. Murstein served as Vice Chairman and Secretary of Sports Properties Acquisition Corp, a public special purpose acquisition company from 2007 to 2011. Mr. Andrew M. Murstein is the son of Mr. Alvin Murstein. Mr. Murstein holds a bachelor's degree in economics from Tufts University and an M.B.A. from New York University. He currently serves on the board of the public benefit corporation Javits Center in New York City.

John Everets, a member of the Board, has served on the Board of Medallion Bank since 2019. Mr. Everets brings extensive financial and leadership experience at both public and private companies to our Board. Mr. Everets is currently a partner at Arcturus Capital in Boston, Massachusetts. Prior to joining Arcturus, he was lead investor, Chairman of the Board and Chief Executive Officer of the Bank of Maine from 2010 to 2015, where he led the recapitalization of the bank, helped improve its financial position and led its merger with Camden National Bank to form the largest bank in northern New England. Before leading the Bank of Maine, Mr. Everets was Chairman of Yorkshire Capital. Prior to that, he was Chairman and Chief Executive Officer of GE HPSC, Inc., from 1993 to 2006, where he grew the company from \$100 million in assets to \$1 billion before it was acquired by General Electric in 2004. Mr. Everets also previously held several executive positions at Advest, Inc. Mr. Everets is currently a director of the Eastern Company, a director of MFIN, a trustee of the Boston Athenaeum and a member of the board of directors of Newman's Own Foundation, where he chairs the Finance Committee.

Brent O. Hatch, a member of the Board and member of the audit committee, has served on the Board and the audit committee of Medallion Bank since 2003. Mr. Hatch is the founder of the law firm of Hatch, James & Dodge, PC and has been employed there

since 1993, where he litigates complex commercial matters and advises corporations on significant transactions. Mr. Hatch brings to the Board of Medallion Bank extensive legal experience, having founded a law firm in Utah and having previously served as associate counsel to George H.W. Bush, Deputy Assistant Attorney General at the U.S. Department of Justice and General Counsel at the National Endowment for the Humanities. Mr. Hatch holds a bachelor's degree from Brigham Young University and a J.D. from Columbia Law School. Mr. Hatch clerked for the Honorable Robert H. Bork of the U.S. Court of Appeals for the District of Columbia Circuit from 1984 to 1985. He is also a Director and Treasurer of the Federalist Society. Mr. Hatch was an elected delegate to the Republican National Convention in 2004.

Robert M. Meyer, a member of the Board and member of the audit committee, has served on the Board of Medallion Bank since 2016 and on the audit committee since 2019. Mr. Meyer brings to the Board extensive experience in the banking industry and in the lending business as well as over 25 years of experience managing public companies. He served as Executive Vice President and Chief Commercial Lending Officer at Valley National Bancorp from 1997 until his retirement in 2016, and, following his retirement, Mr. Meyer provided consulting services to Valley National Bank until August 2018. During his 47-year career in banking, Mr. Meyer had previously served as President and Chief Executive Officer of Midland Bancorp/Midland Bank and Trust Company from 1991 to 1997 and President and Chief Executive Officer of Broad Street National Bank and First Jersey National Bank/Central from 1985 to 1988. Mr. Meyer holds a bachelor's degree and a master's degree from Montclair State College and an M.B.A. from the University of Miami.

J. Lawrence Richards, a member of the Board and chairman of the audit committee, has served on the Board of Medallion Bank since 2003 and on the audit committee since 2011. Most recently, Mr. Richards served as President of LDS Business College from 2009 to 2017. Mr. Richards brings to the Board his substantial experience in the managing of multiple banking organizations. During his 25-year career in banking, Mr. Richards served as President of Your:)Bank.com, a subsidiary of Gateway Companies, from 1999 to 2002, as President and Chief Executive Officer of Advanta Bank Corp. from 1993 to 1999, as President and Chief Operating Officer at Olympus Bank, FSB from 1989 to 1993 and in various management positions, including President, at MountainWest Savings and Loan from 1977 to 1989. Mr. Richards holds a bachelor's degree from the University of Utah and a master's degree from Capella University. Mr. Richards currently serves as the finance committee chair of the Stella H. Oaks Foundation and has previously served as a member of the board of directors of the Utah Banker's Association and the Utah Association of Financial Services and Chairman of the Board of Junior Achievement of Utah.

John M. Taggart, a member of the Board and a member of the audit committee, has served on the Board of Medallion Bank since 2003 and on the audit committee since 2019, and was the Chief Executive Officer and President of Medallion Bank from April 2002 until his retirement in May 2015. Mr. Taggart brings to the Board his experience in managing Medallion Bank since the inception of its business, as well as over 35 years' experience in senior management roles at banking organizations. Prior to joining Medallion Bank, Mr. Taggart had served at American Investment Bank, N.A. as a Director and Executive Vice President from 1998 to 2001 and as Chief Financial Officer from 1986 to 1998, at Copper State Thrift and Loan as Chief Financial Officer from 1979 to 1986 and at Coopers & Lybrand as Senior Auditor from 1976 to 1979. Mr. Taggart holds a bachelor's degree in accounting from the University of Utah and is a Certified Public Accountant in Utah.

Donald S. Poulton, the President and Chief Executive Officer of Medallion Bank, has been the President and Chief Executive Officer of Medallion Bank since 2015. Mr. Poulton was a founding officer of Medallion Bank and participated in the application and approval process for the Bank's charter. Prior to becoming the Bank's Chief Executive Officer in 2015, Mr. Poulton served as the Bank's Chief Lending Officer from the Bank's formation in 2002. Mr. Poulton has over 40 years of experience in the banking industry, particularly in the areas of residential mortgage, consumer and commercial lending, including SBA lending. During the course of his career in the banking industry, Mr. Poulton has served as Executive Vice President and Chief Lending Officer of American Investment Financial from 1998 to 2002, where he was responsible for all lending programs, and Senior Vice President and Director of Private Banking of American Investment Bank from 1986 to 1998. Both American Investment Financial and American Investment Bank were wholly owned subsidiaries of Leucadia National Corporation. Mr. Poulton holds a bachelor's degree in finance from the University of Utah. Mr. Poulton has served on the board of the Utah Microenterprise Loan Fund since 2010.

Trent E. Hudson, Senior Vice President and Chief Financial Officer, has been at the Bank since January 2019. Mr. Hudson has over 25 years of experience in finance, 17 of them in financial management and 15 of them at another Utah industrial bank. Prior to joining the Bank, Mr. Hudson served as Chief Financial Officer and Chief Operating Officer at First Electronic Bank from 2003 until January 2019 and as Assistant Treasurer at Novell, Inc. (formerly NASDAQ:NOVL) from 1993 until 2003. Mr. Hudson holds a bachelor's degree in finance from the University of Utah and an M.B.A. from Brigham Young University.

D. Justin Haley, Executive Vice President and Chief Operating Officer, has been at the Bank since 2011. Prior to becoming the Bank's Chief Operating Officer in 2015, Mr. Haley served as the Vice President and General Manager of the Bank's Home Improvement Lending division, which he started for the Bank. Mr. Haley has worked in the banking industry for 24 years and has significant prior experience in consumer, home improvement and small business lending, plus technology, marketing and strategic planning. Before joining Medallion Bank, Mr. Haley was the President of First Mutual Sales Finance, a home improvement lending

subsidiary of Washington Federal from February 2008 to October 2008 and was a Vice President of Sales Finance of First Mutual Bank from October 2005 through January 2008, when First Mutual Bank was acquired by Washington Federal. Mr. Haley has a bachelor's degree in history and an M.B.A. from the University of Washington and is a graduate of the Pacific Coast Banking School. Mr. Haley serves on the Board of Directors for the Utah Association of Financial Services and the National Association of Industrial Bankers.

Steven M. Hannay, Senior Vice President and Chief Lending Officer, has been at the Bank since 2004. Mr. Hannay began his career at Medallion Bank as a Vice President Operations Manager and became the Bank's Chief Lending Officer in 2015. Currently, Mr. Hannay is responsible for the Bank's consumer lending businesses, loan funding, loan servicing and collections. Mr. Hannay has more than 25 years of experience in the lending industry and specializes in credit and portfolio management, division strategy, team development, operations and underwriting. Prior to joining Medallion Bank in 2004, Mr. Hannay served as Credit Manager at American Investment Bank from 1992 to 2004, specializing in consumer non-prime credit. Mr. Hannay has a bachelor's degree in business finance from the University of Utah. Mr. Hannay serves as a member of the Utah Microenterprise Loan Fund Committee.

John T. Taylor, Senior Vice President of Strategic Partnerships, has been at the Bank since 2019. Mr. Taylor started and oversees the development of the Bank's new Strategic Partnership Program. Mr. Taylor has nearly 35 years of experience in the banking industry. Prior to joining Medallion Bank, he served as President and Chief Executive Officer at First Electronic Bank from 2013 through 2019, as President and Chief Executive Officer of CIT Bank from 2009 through 2013, and as Chief Financial and Compliance Officer of CIT Bank from 2000 to 2009. Mr. Taylor holds a bachelor's degree in business administration and accounting from Idaho State University. Mr. Taylor currently serves on the board and executive committee of the Utah Association of Financial Services. He has previously served on the boards of the Utah Community Reinvestment Corporation, Utah Bankers Association, Salt Lake Habitat for Humanity and NeighborWorks, SLC, and has served as a volunteer financial counselor for the Salt Lake City Housing Authority. Mr. Taylor is a Certified Public Accountant and was a former auditor and federal bank examiner.

Code of Conduct and Ethics

We have adopted a code of ethics policy for our directors, officers and employees. These persons must act ethically at all times and in accordance with the guidelines comprising our Code of Ethical Conduct and Insider Trading Policy to establish standards and procedures for the prevention and detection of activities which signal a conflict of interest or an abuse of fiduciary duty. To further promote ethical and responsible decision-making, the Board also adopted a Code of Ethical Conduct for Senior Financial Officers. Our Code of Ethical Conduct and Insider Trading Policy and Code of Ethical Conduct for Senior Financial Officers can be found on our website at www.medallionbank.com. If we make any substantive amendments to our code of ethics or grant any waiver from a provision of the code of ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website. The Board expects our directors, as well as our officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising our code of ethics, which include, among other things, rules prohibiting loans or other extensions of credit, securities transactions during "blackout" periods, acceptance of gifts and certain interested transactions. In addition, the Board has established a policy for reporting employee concerns to the audit committee of the Board. Anyone with a concern about our accounting, internal accounting controls, or auditing matters may confidentially report such concern by telephone to a special dedicated toll-free phone number. This policy was previously announced to all of our employees and the telephone number is published in our common-area workplaces. All such communications are confidential and shall be promptly reviewed by the audit committee.

Corporate Governance

Status as a "Controlled Company"

Our Series F Preferred Stock is listed on NASDAQ Capital Market and, as a result, we are subject to the corporate governance listing standards of the exchange. However, a listed company that satisfies the definition of a "controlled company" (*i.e.*, a company of which more than 50% of the voting power is held by a single entity or group) may elect not to comply with certain of these requirements. Because MFIN directly owns 100% of our outstanding common stock and we are therefore a "controlled company," we have elected not to comply with the corporate governance standards of NASDAQ requiring: (i) a fully independent corporate governance and nominating committee and (ii) a fully independent compensation committee. As discussed below, two of our seven directors do not qualify as "independent directors" under the applicable rules of NASDAQ. See "Certain Relationships and Related-Person Transactions" for more information.

Composition of Our Board of Directors

The Board has seven members, consisting of two non-independent directors who are employees of MFIN and five other directors who are "independent" under the listing standards of NASDAQ. Under our Bylaws, the number of directors constituting our Board must be between five and nine, and such number, within those limits, will be fixed from time to time by resolution of our Board

or by our shareholders. Our Board meets at least once a quarter in accordance with requirements under Utah law, and our independent directors meet in executive session at least twice a year in accordance with NASDAQ listing requirements.

Committees of Our Board of Directors

The only standing committee of the Board is the audit committee. The responsibilities of the audit committee are described below. Under our Bylaws, the Board may also establish other committees to assist it in its responsibilities.

The audit committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, our independent auditors' qualifications and independence, the performance of our internal audit function and independent auditors and our risk assessment and risk management. Among other duties delegated to it from time to time by the Board, the audit committee:

- retains and terminates our independent auditors;
- obtains and reviews annually a report by the independent auditors describing (1) the auditing firm's internal quality-control procedures; (2) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; and (3) all relationships between the independent auditor and the Bank;
- approves all audit engagement fees and terms, as well as significant non-audit engagements with the independent auditors;
- reviews and evaluates the qualifications, performance and independence of the lead partner of the independent auditors and presents the committee's conclusions with respect to the independent auditors to the full Board;
- discusses the annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Bank's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- reviews with management and the independent public accountants the basis of the annual management report required by 12 C.F.R. Part 363;
- receives reports from the Bank's President and Chief Executive Officer and Chief Financial Officer of (i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Bank's ability to record, process, summarize and report financial data and identify any material weakness in internal controls and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls;
- reviews analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the Bank's financial statements, including analyses of the effects of alternative GAAP methods on the Bank's financial statements, and reviews the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the financial statements of the Bank;
- reviews in advance of distribution all dividends and earnings press releases (paying particular attention to any use of "pro forma," or "adjusted" non-GAAP, information), as well as financial information and earnings guidance provided to analysts and rating agencies;
- obtains advice and assistance from outside legal, accounting or other advisors, when necessary;
- discusses policies with respect to risk assessment and risk management;
- reviews the adequacy of management information systems, internal accounting and financial controls;
- meets separately, on a periodic basis, with Bank personnel responsible for the internal audit function and with independent auditors;
- reviews with the independent auditor any audit problems or difficulties and management's response;

- reviews annually the policies and procedures relating to compliance with legal and regulatory requirements and the Bank’s compliance therewith;
- establishes procedures for the receipt, retention and treatment of complaints on accounting, internal accounting controls or auditing matters, as well as for confidential, anonymous submissions by Bank employees of concerns regarding questionable accounting or auditing matters;
- considers any reports or communications submitted to the committee by the independent auditors required by or referred to in applicable Public Company Accounting Oversight Board or other applicable standards, including reviewing any accounting adjustments that were noted or proposed by the auditor but were “passed” (including similar adjustments that were passed because individually they were not material); any communications between the audit team and the audit firm’s national office respecting auditing or accounting issues presented by the engagement; and any “management” or “internal control” letter issued, or proposed to be issued, by the auditing firm to the Bank; and
- reviews and provides oversight of all related-party transactions of the Bank in accordance with the policies of the Bank in effect from time to time.

The audit committee is required to consist of at least three members, all of whom are required to be “independent” under the listing standards of NASDAQ and meet the requirements of Rule 10A-3 of the Exchange Act. The audit committee also includes at least one “audit committee financial expert.” Currently, our audit committee members are Brent O. Hatch, Robert M. Meyer, J. Lawrence Richards and John M. Taggart. Messrs. Hatch, Meyer, Richards, and Taggart are each an audit committee financial expert. The audit committee has adopted a written charter that specifies the scope of its rights and responsibilities, including those listed above. The charter is available on our website at www.medallionbank.com.

Board Leadership Structure and Qualifications

We believe that our directors should have the highest professional and personal ethics and values, consistent with our longstanding values and standards. They should have broad experience at the policy-making level in business, government or banking. They should be committed to enhancing shareholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on boards of other companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties. Each director must represent the interests of all shareholders. When considering potential director candidates, the Board also considers the candidate’s character, judgment, diversity, skills, including financial literacy, and experience in the context of our needs and those of the Board.

Board Oversight of Risk Management

Our Board believes that effective risk management and control processes are critical to our safety and soundness, our ability to predict and manage the challenges that we face and, ultimately, the long-term success of the Bank. The Bank employs conservative risk management practices in order to effectively manage its business and its loan portfolios, and our Board, both directly and through the audit committee, has the ultimate responsibility for oversight of these risk management practices. The Board meets regularly throughout the year with executive management to ensure that all major risks are discussed with and evaluated by the Board. Changes to the Bank’s risk profile, whether documented in policy or not, are discussed with the Board as needed, and policies, which cover all major risk areas for the Bank, are approved by the Board at the time of drafting, annually and whenever any change is being made. The audit committee of our Board is responsible for overseeing risks associated with financial matters (particularly financial reporting, accounting practices and policies, disclosure controls and procedures and internal control over financial reporting) and reviewing and discussing generally the identification, assessment, management and control of our risk exposures.

The role of our Board in our risk oversight is consistent with our leadership structure, with our President and Chief Executive Officer and the other members of senior management having responsibility for assessing and managing our risk exposure, and our Board providing oversight in connection with those efforts. We believe this division of risk management responsibilities presents a consistent, systemic and effective approach for identifying, managing and mitigating risks throughout our operations.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Program and Relationship with MFIN

The Bank is a wholly owned subsidiary of MFIN and MFIN continues to own 100% of the Bank’s outstanding common stock. Accordingly, MFIN’s executive compensation program has historically applied to our executive officers and will continue to do so for 2020. Determinations with respect to the compensation of our executive officers are made by MFIN’s compensation committee

in accordance with MFIN’s compensation program. Such determinations are typically ratified by both the full MFIN board of directors and the Bank Board. Determinations with respect to the compensation of our directors are made by the Bank Board, separate and apart from MFIN’s compensation program with respect to its directors.

Each of our named executive officers (as provided below) is an employee of both MFIN and the Bank. We describe the application of MFIN’s compensation program to our named executive officers, as well as the compensation of our directors, in the discussion that follows.

Summary Executive Compensation Table and Narrative Discussion

The following table presents compensation awarded in the fiscal years ended December 2019 and 2018 to our principal executive officer and our two most highly compensated persons serving as executive officers as of December 2019, or paid to or accrued for those executive officers for services rendered during fiscal years 2019 and 2018, and should be read in conjunction with the associated narratives. We refer to these executive officers as our “named executive officers.”

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Restricted Stock Awards (\$) ⁽¹⁾	Stock Option Awards (\$) ⁽²⁾	All Other Compensation (\$)	Total (\$)
Donald S. Poulton	2019	355,137	225,000	64,924	65,000	17,599 ⁽³⁾	727,660
President and Chief Executive Officer	2018	344,793	255,000	50,002	—	17,499 ⁽³⁾	667,294
D. Justin Haley	2019	217,117	87,500	30,000	30,001	— ⁽⁴⁾	364,618
Executive Vice President and Chief Operating Officer	2018	203,579	70,000	25,001	—	— ⁽⁴⁾	298,580
Trent E. Hudson ⁽⁵⁾							
Senior Vice President and Chief Financial Officer	2019	209,855	90,000 ⁽⁶⁾	—	47,042	— ⁽⁴⁾	346,897

- (1) This amount is the aggregate grant date fair value of restricted stock awards with respect to the fiscal years ended December 2019 and December 2018 computed in accordance with FASB ASC Topic 718. The fair value of each restricted stock award is determined on the award date by the closing market price of MFIN’s common stock, par value \$0.01 per share (MFIN common stock), on the award date.
- (2) This amount is the aggregate grant date fair value of stock option awards with respect to the fiscal year ended December 2019 computed in accordance with FASB ASC Topic 718. See Note 1 for additional details.
- (3) All other annual compensation for Donald S. Poulton for the fiscal years ended December 2019 and December 2018 includes amounts received as a monthly car allowance and amounts received pursuant to the matching program under our 401(k) Investment Plan.
- (4) Unless otherwise indicated, for D. Justin Haley and Trent E. Hudson, the aggregate amount of perquisites and other personal benefits or property was less than \$10,000.
- (5) Trent E. Hudson joined the Bank effective January 28, 2019.
- (6) This amount includes a \$50,000 signing bonus.

Base Salary

Each named executive officer’s base salary is a fixed component of compensation for each year for performing specific job duties and functions. The total base salaries earned by our named executive officers in fiscal years 2019 and 2018 are disclosed in the table above.

Base salaries for our named executive officers were initially set pursuant to each officer’s employment agreement (described further below) and are reviewed at least once each fiscal year by MFIN’s compensation committee, MFIN’s full board of directors and the Bank Board.

Bonus

Our named executive officers are eligible to receive discretionary annual bonuses pursuant to the terms of their employment agreements. The annual bonuses are intended to compensate our named executive officers for achieving financial and operational goals and for achieving division and individual performance objectives. For the 2019 bonus decisions, MFIN’s compensation committee used a newly developed “scorecard” of performance factors to provide a more structured reference for determining incentive payouts. The performance scorecard metrics in 2019 included, but were not limited to, the consolidated and segment returns on assets, returns on equity and efficiency ratios, collections/recoveries for the Medallion Lending segment, success and implementation of strategic initiatives and individual performance. MFIN’s compensation committee chose to evaluate performance measures in a holistic manner rather than assign weights to each individual metric. Mr. Poulton’s 2019 bonus was \$225,000, which was attributed in part to the overall performance of the Bank’s consumer loan portfolios in 2019 and his overall management of the Bank in 2019. Mr. Haley’s 2019 bonus was \$87,500, which was attributed in part to the overall performance of the Bank’s consumer loan portfolios in 2019 and his overall management of the Bank in 2019. Mr. Hudson’s 2019 bonus consisted of a \$50,000 signing

bonus and an annual bonus of \$40,000, which was attributed in part to the overall performance of the Bank's consumer loan portfolios in 2019 and his overall management of the Bank in 2019.

The discretionary annual bonus is paid in cash in an amount reviewed and approved by MFIN's compensation committee and ratified by MFIN's board of directors and the Bank Board and ordinarily is paid in a single installment in either the fourth quarter of a given fiscal year or the first quarter following the completion of a given fiscal year. MFIN's compensation committee, however, has the discretion to declare a bonus more frequently than on an annual basis and may do so in recognition of exceptional contributions to MFIN or the Bank at other times.

Long-Term Incentive Compensation

Prior to April 2, 2018, MFIN operated as a business development company under the Investment Company Act of 1940 (or 1940 Act). Under the 1940 Act, the number of restricted stock, warrants, options or rights to subscribe or convert to MFIN's voting securities that MFIN was permitted to issue was limited. MFIN was also limited under the 1940 Act to the types of securities it may issue. Accordingly, MFIN's long-term incentive compensation program was previously limited to the issuance of restricted stock and stock options and was generally constrained in scope and nature by the parameters set forth in the 1940 Act.

Nonetheless, MFIN believes that long-term performance is achieved through granting restricted stock and stock options, which creates an ownership culture that encourages long-term performance by its executive officers and other employees. MFIN's restricted stock and stock option plans (discussed below) have been established to provide certain of MFIN's employees, including our named executive officers, with incentives (i) to highlight and reinforce the mutuality of long-term interests between employees and shareholders and (ii) to assist in the attraction and retention of critically important key executives, managers and individual contributors who are essential to our and MFIN's growth and development. MFIN's compensation committee believes that the use of restricted stock and stock options is important in achieving MFIN's compensation goals. MFIN's restricted stock and stock option plans have provided the principal method for our named executive officers to acquire equity in our parent company.

The 2018 Equity Incentive Plan, or the 2018 Plan, was adopted by MFIN's board of directors on April 25, 2018, and approved by its shareholders on June 15, 2018. The terms of the 2018 Plan provide for grants of stock-based incentive awards, including, without limitation, options, restricted stock and stock appreciation rights, to MFIN's employees and any person who has been offered employment by MFIN, with payments to prospective employees being contingent upon such persons commencing employment with MFIN. MFIN's compensation committee is authorized to grant awards under the 2018 Plan. Awards under the 2018 Plan are subject to certain forfeiture provisions, and thus are restricted as to transferability until such forfeiture restrictions have lapsed. The restrictions on such awards pursuant to the 2018 Plan may relate to continued service to MFIN, the achievement of specific performance objectives, or other restrictions deemed by MFIN's compensation committee from time to time to be appropriate and in MFIN's best interests and in the interests of MFIN's shareholders. Restricted stock and stock option awards were granted under the 2018 Plan to the Bank's named executive officers in 2019. Shares of MFIN's common stock that had remained issuable under the 2015 Employee Plan described below were rolled into the 2018 Plan upon its adoption in June 2018.

The 2015 Employee Restricted Stock Plan, or the 2015 Employee Plan, was adopted by MFIN's board of directors on February 13, 2015, approved by MFIN's shareholders on June 5, 2015, and approved by the SEC on March 1, 2016. The terms of the 2015 Employee Plan provide for grants of restricted stock awards to MFIN's employees and any person who has been offered employment by MFIN, with payments to prospective employees contingent upon such persons commencing employment with MFIN. MFIN's compensation committee is authorized to grant restricted stock awards. A grant of restricted stock is a grant of shares of MFIN common stock that, at the time of issuance, are subject to certain forfeiture provisions, and thus are restricted as to transferability until such forfeiture restrictions have lapsed. The restrictions on the restricted stock issued pursuant to the 2015 Employee Plan may relate to continued service to MFIN, the achievement of specified performance objectives, or other restrictions deemed by MFIN's compensation committee from time to time to be appropriate and in MFIN's best interests and in the interests of its shareholders.

The 2009 Employee Restricted Stock Plan, or the 2009 Employee Plan, was adopted by MFIN's board of directors on April 16, 2009, approved by the SEC on April 26, 2010, and approved by MFIN's shareholders on June 11, 2010. No additional shares are available for issuance under the 2009 Employee Plan. The terms of the 2009 Employee Plan provided for grants of restricted stock awards to MFIN's employees and any person who had been offered employment by MFIN, with payments to prospective employees contingent upon such persons commencing employment with MFIN. MFIN's compensation committee was authorized to grant restricted stock awards. The restrictions on the restricted stock issued pursuant to the 2009 Employee Plan related to continued service to MFIN, the achievement of specified performance objectives, or other restrictions deemed by MFIN's compensation committee from time to time to be appropriate and in MFIN's best interests and in the interests of its shareholders.

MFIN has a stock option plan: the 2006 Employee Stock Option Plan. The 2006 Employee Stock Option Plan expired on February 15, 2016, and no options are available for issuance under it. The 2006 Employee Stock Option Plan included vesting periods

to optimize the retention value of options and to provide an incentive to MFIN's named executive officers to achieve success over the long term. Generally, stock options vested in equal annual installments over three to five years commencing on the first anniversary of the date of grant, and if employees left MFIN before these vesting periods, they forfeited the unvested portions of these awards. The vesting schedules chosen were dependent on the individual, the rationale behind such option grant, the number of options granted and the exercise price of such options.

401(k) Plan

MFIN maintains a 401(k) Investment Plan which covers all of MFIN's full- and part-time employees who have attained the age of 21, have a minimum of one year of service, and have worked 1,000 hours in a given calendar year. Under the 401(k) Investment Plan, an employee may elect to defer not less than 1.0% of his or her total annual compensation, up to the applicable limits set forth in the Internal Revenue Code of 1986, as amended. Employee contributions are invested in various mutual funds, according to the direction of the employee. MFIN matches employee annual contributions to the 401(k) Investment Plan in an amount equal to one-third of the first 6% of an employee's annual contributions.

Employment Agreements and Offer Letters

Our named executive officers are employees of both MFIN and the Bank. MFIN will enter into a new employment agreement with an executive officer or a candidate only when necessary to attract or retain exceptional personnel. Any employment agreement with an executive officer (a) must be approved by MFIN's compensation committee; (b) should have as short a term as possible and provide as few terms and conditions as are necessary to accomplish its purpose; and (c) if required by law to be available for public review, must be filed promptly with the appropriate regulatory authority. Employment agreements with our named executive officers were also reviewed and approved by the Bank Board.

Mr. Poulton entered into an agreement with us and MFIN to serve as our President and Chief Executive Officer, which became effective on January 1, 2016. The agreement provides for a two-year term and automatically renews each year for a new two-year term unless either party terminates the agreement. Under the agreement, Mr. Poulton is entitled to an annual base salary of \$325,000 with annual increases at a rate of no less than 3% of his then-existing base salary. Mr. Poulton is also eligible to receive a discretionary bonus, with a minimum bonus payment of \$225,000 if the return on equity, or ROE, and return on assets, or ROA, for the Bank's consumer lending products are similar to the ROE and ROA for such lines as the average for the 2014 and 2015 fiscal years. The agreement provides for a severance payment if the agreement is terminated under certain conditions or upon a change of control if his employment is discontinued in connection therewith, and also includes a non-competition covenant.

Mr. Haley entered into an agreement with MFIN to serve as our Chief Operating Officer, which became effective on June 1, 2015. The agreement provides for a two-year term and automatically renews each year for an additional two-year term unless either party notifies the other in writing of its intention not to renew the agreement. Under the agreement, Mr. Haley is entitled to an annual base salary of \$185,000 with annual increases at a rate of no less than 3% of his then-existing base salary. Mr. Haley is also eligible to receive a discretionary bonus, with a minimum bonus payment of \$40,000 if similarly situated executives of MFIN receive a bonus. The agreement provides for a severance payment if Mr. Haley is terminated without cause or if he resigns under certain conditions, and also includes a non-competition covenant.

Mr. Hudson entered into an agreement with MFIN to serve as our Chief Financial Officer, which became effective on January 28, 2019. The agreement provides for a two-year term. Under the agreement, Mr. Hudson is entitled to an annual base salary of \$225,000. Mr. Hudson is also eligible to receive a discretionary bonus. Mr. Hudson was entitled to receive a cash signing bonus in the amount of \$50,000 and was entitled to a grant of \$100,000 of options to acquire shares of the common stock of MFIN. The agreement provides for a severance payment if Mr. Hudson is terminated without cause or if he resigns under certain conditions, and also includes a non-competition covenant.

Perquisites

MFIN provides its named executive officers with perquisites and other personal benefits that MFIN and its compensation committee believe are reasonable and consistent with its overall compensation program to better enable MFIN to attract and retain superior employees for key positions. MFIN's compensation committee periodically reviews the levels of perquisites and other personal benefits provided to its named executive officers. Mr. Poulton is provided with a monthly car allowance to facilitate travel when conducting his duties.

Other Benefits

Our named executive officers are eligible to participate in all of MFIN's employee benefit plans, such as medical, dental, vision, group life, disability, and accidental death and dismemberment insurance, as well as MFIN's 401(k) Investment Plan, in each case on the same basis as other employees.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth information regarding the outstanding equity awards held by our named executive officers as of December 2019 and all such awards were granted under MFIN's 2006 Employee Stock Option Plan, 2015 Employee Restricted Stock Plan and 2018 Equity Incentive Plan.

Name	Option Awards				Restricted Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Restricted Stock That Have Not Vested (#)	Market Value of Shares of Restricted Stock That Have Not Vested (\$)
Donald S. Poulton	—	—	—	—	7,593 ⁽¹⁾	55,201
	—	21,604 ⁽²⁾	6.55	3/21/2029	9,924 ⁽³⁾	72,147
D. Justin Haley	5,000	—	11.53	12/20/2021	—	—
	—	—	—	—	3,797 ⁽¹⁾	27,604
	—	9,983 ⁽²⁾	6.55	3/21/2029	4,580 ⁽²⁾	33,297
Trent E. Hudson	—	19,194 ⁽⁴⁾	5.27	1/28/2029	—	—

- (1) One half of these shares of restricted MFIN common stock vested on February 20, 2020, and the remaining half reflected in the table above will vest on February 20, 2021.
- (2) One fourth of these stock option awards vested on February 14, 2020. The remaining stock option awards will vest on February 14, 2021, February 14, 2022 and February 14, 2023.
- (3) One fourth of these shares of restricted MFIN common stock vested on February 14, 2020. The remaining shares of restricted MFIN common stock reflected in the table above will vest on February 14, 2021, February 14, 2022 and February 14, 2023.
- (4) These stock option awards vested in full on January 28, 2020.

Potential Payments upon Termination or Change in Control

The following table sets forth information regarding potential payments to be made to our named executive officers following an employment termination or change of control. Amounts in the table assume an employment termination or change in control on December 31, 2019.

Name	Termination Without Cause (\$)	Termination by Officer for Good Reason (Not Involving Change of Control)(\$)	Disability (\$)	Change of Control - Termination or Change in Employment(\$)	Change of Control -Employment Agreement Assumed By New Owner(\$)
Donald S. Poulton					
Severance	443,921 ⁽¹⁾	443,921 ⁽¹⁾	177,568 ⁽²⁾	443,921 ⁽¹⁾	266,352 ⁽³⁾
Other Benefits	24,612 ⁽⁴⁾	24,612 ⁽⁴⁾	12,306 ⁽⁵⁾	24,612 ⁽⁴⁾	—
D. Justin Haley					
Severance	271,396 ⁽⁶⁾	271,396 ⁽⁶⁾	54,279 ⁽⁷⁾	—	—
Other Benefits	24,612 ⁽⁸⁾	24,612 ⁽⁸⁾	6,153 ⁽⁹⁾	—	—
Trent E. Hudson					
Severance	227,344 ⁽¹⁰⁾	227,344 ⁽¹⁰⁾	52,464 ⁽¹¹⁾	—	—
Other Benefits	23,939 ⁽¹²⁾	23,939 ⁽¹²⁾	5,524 ⁽¹³⁾	—	—

- (1) Mr. Poulton would be entitled to an amount equal to his salary for the balance of his current employment period, which expires on December 31, 2020, and 2 weeks' base salary for each year employed, up to 3 months. The severance payment was calculated based on his salary for the fiscal year ended December 2019.
- (2) Mr. Poulton would be entitled to an amount equal to six months' salary following termination. The severance payment was calculated based on his salary for the fiscal year ended December 2019.
- (3) Mr. Poulton would be entitled to an amount equal to nine months' salary. The severance payment was calculated based on his salary for the fiscal year ended December 2019.
- (4) Mr. Poulton would be entitled to receive his health benefits for the balance of his current employment period.
- (5) Mr. Poulton would be entitled to receive his health benefits for the six months following termination.
- (6) Mr. Haley would be entitled to an amount equal to his salary for the twelve months following termination, and 2 weeks' base salary for each year employed, up to 3 months. The severance payment was calculated based on his salary as of December 2019.

- (7) Mr. Haley would be entitled to an amount equal to three months' salary following termination. The severance payment was calculated based on his salary as of December 2019.
- (8) Mr. Haley would be entitled to receive his health benefits for the twelve months following termination.
- (9) Mr. Haley would be entitled to receive his health benefits for the three months following termination.
- (10) Mr. Hudson would be entitled to an amount equal to his salary for the balance of his current employment period, which expires on January 28, 2021, and 2 weeks' base salary for each year employed, up to 3 months. The severance payment was calculated based on his salary as of December 2019.
- (11) Mr. Hudson would be entitled to an amount equal to three months' salary following termination. The severance payment was calculated based on his salary as of December 2019.
- (12) Mr. Hudson would be entitled to receive his health benefits for the balance of his current employment period.
- (13) Mr. Hudson would be entitled to receive his health benefits for the three months following termination.

MFIN's board of directors determined that providing the modest change-of-control arrangements described above and which apply to Mr. Poulton as a named executive officer of MFIN appropriately reflects the risk imposed on executives that a company such as MFIN might be acquired. These arrangements are intended to attract and retain qualified executives with employment alternatives that may appear to them to be less risky absent these arrangements, and to mitigate a potential disincentive to authorize such an acquisition, particularly where the services of these executive officers may not be required by the acquirer.

MFIN's compensation committee authorized the various change-in-control and severance provisions in recognition of the importance to MFIN and its shareholders of assuring that MFIN has the continued dedication and full attention of certain key employees prior to and after the consummation of a change-in-control event. In addition to the foregoing, the provisions are intended to ensure that, if a possible change in control should arise and a MFIN named executive officer should be involved in deliberations or negotiations in connection with the possible change in control, such officer would be in a position to consider as objectively as possible whether the possible change-in-control transaction is in MFIN's best interests and those of its shareholders, without concern for his or her position or financial well-being. Absent termination without cause or for good reason, or a change-of-control event, no MFIN named executive officer is entitled to either equity vesting acceleration or cash severance payments upon termination of employment.

Director Compensation Table and Narrative Discussion

The following table sets forth certain compensation information for our directors for the fiscal year ended December 2019. None of our directors is an employee of the Bank. Mr. Alvin Murstein and Mr. Andrew M. Murstein are both employees of MFIN.

Name	Fees earned or paid in cash (\$)	Restricted stock unit awards (\$) ⁽¹⁾	Option awards (\$)	Non-equity incentive plan compensation (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Alvin Murstein	—	—	—	—	—	—	—
Andrew M. Murstein	—	—	—	—	—	—	—
Brent O. Hatch	51,500	6,000	—	—	—	—	57,500
Robert M. Meyer	45,500	6,000	—	—	—	—	51,500
J. Lawrence Richards	51,500	6,000	—	—	—	—	57,500
John M. Taggart	51,500	6,000	—	—	—	—	57,500
Dean S. Woodman ⁽²⁾	33,000	6,000	—	—	—	—	39,000
John Everets ⁽³⁾	—	—	—	—	—	—	—

(1) This amount is the aggregate grant date fair value of restricted stock units with respect to the fiscal year ended December 31, 2019 computed in accordance with FASB ASC Topic 718. See Note 1 for additional details.

(2) Dean S. Woodman retired from the Board effective September 24, 2019.

(3) John Everets joined the Board effective September 26, 2019.

Our directors, other than Mr. Alvin Murstein, Mr. Andrew M. Murstein and Mr. John Everets, are paid \$44,000 for each year they serve, payable in quarterly installments, receive \$1,500 for each Audit Committee meeting attended, and are reimbursed for expenses relating to attendance at Board meetings. Such directors also receive \$6,000 worth of restricted stock units granted under the 2018 Plan for each year they serve. We do not provide any pension or retirement plan with respect to our directors.

As employees of MFIN, Mr. Alvin Murstein and Mr. Andrew M. Murstein are eligible to participate in MFIN's 401(k) Investment Plan and the 2018 Plan.

Compensation Committee Interlocks and Insider Participation

As a controlled company, we are not required to have, and do not have, a compensation committee. None of our executive officers serves or has served as a member of the Board, compensation committee or other board committee performing equivalent functions of any entity that has one or more executive officers serving as one of our directors, which would be required to be disclosed under Item 404 of Regulation S-K.

In the March 2020 board meeting, Mr. Poulton participated in a discussion with members of the Board regarding executive officer compensation. At the time, the compensation committee of MFIN had already made decisions regarding executive officer compensation for the Bank. Those decisions were presented and ratified during the board meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

The information set forth in Item 5 of this Form 10-K titled "Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities— Securities Authorized for Issuance Under Equity Compensation Plans" is incorporated herein by reference.

Security Ownership of Certain Beneficial Owners and Management

The following table shows, as of March 30, 2020, the percentage of outstanding shares of common stock that are beneficially owned by (i) our directors and executive officers and (ii) any shareholder who holds 5% or more of our common stock. Except as otherwise indicated, the address for each shareholder listed below is c/o Medallion Bank, 1100 East 6600 South, Suite 510, Salt Lake City, UT 84121.

Name and Address of Beneficial Owner	Common Stock	
	As of March 30, 2020	
	Number of Shares	Percentage of Outstanding Shares
MFIN ⁽¹⁾	1,000,000	100%
Directors and Executive Officers		
Alvin Murstein	—	—%
Andrew Murstein	—	—%
John Everets	—	—%
Brent O. Hatch	—	—%
John M. Taggart	—	—%
J. Lawrence Richards	—	—%
Robert M. Meyer	—	—%
Donald S. Poulton	—	—%
Trent E. Hudson	—	—%
D. Justin Haley	—	—%
Steven M. Hannay	—	—%
John T. Taylor	—	—%
All Directors and Executive Officers as a group (composed of 12 individuals)	—	—%
Total	1,000,000	100%

- (1) MFIN owns all shares of our common stock beneficially and of record. MFIN's investment decisions are made by its board of directors. MFIN is a public company with shares listed on NASDAQ Global Select Market under the ticker "MFIN." The address of MFIN is 437 Madison Ave, 38th Floor, New York, NY 10022.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related-Person Transactions

Certain of our directors are also directors or director nominees of MFIN and certain affiliates, including Medallion Funding LLC, Medallion Capital, Inc. and Freshstart Venture Capital Corp. Executive officer salaries are set by MFIN's board of directors and ratified by our Board. The information set forth in Item 7 of this Form 10-K titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Transactions with Affiliates" and Item 10 titled "Directors, Executive Officers and Corporate Governance—Composition of Our Board of Directors" is incorporated herein by reference.

Relationship with MFIN

We are a wholly owned subsidiary of MFIN. We conduct our activities with MFIN and other MFIN subsidiaries and affiliates on an arms'-length basis and in compliance with Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. See "Supervision and Regulation" in Item 1 - Our Business for additional information regarding restrictions on certain transactions with MFIN and other affiliates. The following is a description of certain material relationships between us and MFIN, or a wholly owned subsidiary of MFIN, regarding loan marketing, loan servicing, corporate services and tax sharing.

Loan Marketing Agreement

Pursuant to a Loan Marketing Agreement between us and Medallion Funding LLC, a wholly owned subsidiary of MFIN, we source a number of services from MFC, including the marketing of commercial loan services on our behalf, the accepting and processing of loan applications, and the submission of loan applications to us for approval. Fees paid for services are based on the number of loans MFC originates or renews and the principal amount of such loans. Historically, the services MFC provided pursuant to the Loan Marketing Agreement related to marketing and origination services with respect to our Medallion loans and other commercial loans. However, following the Bank's determination in 2014 to cease originating loans for the purchase of taxi medallions, the services MFC provides pursuant to the Loan Marketing Agreement relate primarily to credit evaluation and application approval processes in connection with the refinancing of Medallion loans. For the services described above, we paid MFC a total of \$0 in the year ended December 2019 and \$0 in the year ended December 2018.

Loan Servicing Agreement

Pursuant to a Loan Servicing Agreement between us and Medallion Servicing Corp., a wholly owned subsidiary of MFIN, MSC provides us with a number of services related to servicing loans in our Medallion Lending segment. Services include, among others, monitoring collateral, collecting loan payments and maintaining account records, and collection activities on delinquent accounts. Fees paid for services are based on the number of loans that MSC services. For the services provided pursuant to this agreement, we paid MSC a total of \$4.8 million in the year ended December 2019 and \$5.2 million in the year ended December 2018.

Corporate Services Agreement

Pursuant to a Corporate Services Agreement between us and MFIN, we source a number of services from MFIN including the following:

- human resources support, including, without limitation, payroll services, benefits administration, and employee counseling;
- legal support, including, without limitation, drafting and reviewing contracts and transactional forms and assisting with regulatory matters;
- business development support, including, without limitation, identifying new business opportunities and potential acquisitions to enable us to further diversify our business, and advising and assisting in negotiations for each such opportunity or acquisition;
- capital raise support, including, without limitation, identifying opportunities for us to raise capital; conducting due diligence on such opportunities, assisting us in identifying and contacting potential investors, and, if requested by us, participating in negotiations with prospective investors;
- accounting and financial support, including, without limitation, selection and maintenance of financial reporting software and development and maintenance of financial reports for board, regulatory, and management purposes; and
- investor relations, public relations and communications support, including, without limitation, managing the press release process (including drafting, coordinating, editing, and submitting all releases on prearranged schedules), maintaining investor relations website(s) and communicating with investors.

Fees paid for the above services are based on pre-determined monthly or hourly rates, and, in the case of human resources support, on the number of our employees. We paid MFIN a total of \$1.0 million in the year ended December 2019 and \$849,000 for these services in the year ended December 2018.

Tax Sharing Agreement

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 our behalf. We and MFIN maintain a Tax Sharing Agreement for any operations included in an MFIN consolidated tax return, pursuant to which MFIN charges us for any taxes owed and reimburses us for tax attributes generated. Such charges or reimbursements are based upon our separate income tax liability calculated as if we had filed a separate federal or state tax return, as the case may be.

Policies and Procedures for Review, Approval or Ratification of Related-Person Transactions

Our Board recognizes that transactions with affiliates and other related-party transactions present a heightened risk of conflicts of interest and/or improper valuation (or the perception thereof). In addition, laws and regulations, including Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder and the Federal Reserve's Regulation O, place restrictions on the amounts and types of transactions we may conduct with our affiliates and with our directors and executive officers. See "Supervision and Regulation" for additional information. Therefore, we maintain a written Insider Lending Policy, which generally prohibits us from making loans or otherwise extending credit to any of our, or certain of our affiliates', executive officers, directors, or principal shareholders, or related interests or immediate family members of any of the foregoing. Our Chief Compliance Officer is responsible for ensuring that covered individuals understand this policy and the applicable regulatory requirements, as well as for the compliance of extensions of credit with this policy or applicable regulations.

We may make exceptions to our Insider Lending Policy for certain insiders. Any extension of credit made pursuant to such an exception must be on the same terms and subject to the same underwriting standards as those applicable to non-related persons. In general, prior approval of our Board is required for any extension of credit to an insider that, when aggregated with all other credit extended to the applicable person, exceeds the greater of \$25,000 or 5% of our capital and unimpaired surplus, or exceeds \$200,000. Any member of the Board who has an interest in the transaction under discussion will abstain from voting on the approval of the transaction. Extensions of credit to our executive officers are subject to additional restrictions set forth in Regulation O and our Insider Lending Policy, and exceptions to the applicable restrictions on extensions of credit to our executive officers are not permitted.

In addition, we have adopted a written Code of Ethical Conduct and Insider Trading Policy, which includes a Conflicts of Interest Policy that establishes requirements for our directors and employees to avoid an actual or perceived conflict of interest with the interests of the Bank. For more information about this policy, see "Management—Code of Conduct and Ethics."

We have also implemented a written Related and Affiliated Party Transactions Policy, pursuant to which our Board is responsible for reviewing our transactions with affiliates, including MFIN. The policy prohibits management from entering into transactions with affiliates or related-party transactions unless the Board has been briefed on the transaction and a majority of directors who are both independent directors and who have no financial interest in the relevant transaction has approved the proposed transaction (the "required majority"). The Board may, in its sole discretion, approve or deny by the required majority any transactions with affiliates or related-party transactions and approval may be conditioned upon any other actions the Board deems appropriate. Failure to follow the approval process can lead to disciplinary action, up to and including termination.

We also have a separate Regulation W Affiliated Transactions Policy that provides a framework through which we identify affiliate transactions governed by Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a summary of the fees billed to us by Mazars USA LLP ("Mazars") for professional services rendered for the fiscal years ended December 2019 and 2018:

Fee Category	Fiscal 2019 Fees	Fiscal 2018 Fees
Audit Fees	\$ 696,000	\$ 752,312
Audit-Related Fees	—	—
Tax Fees	127,216	134,819
All Other Fees	—	—
Total Fees	\$ 823,217	\$ 887,131

Audit Fees

Audit fees consist of fees billed for professional services rendered for the integrated audit of our financial statements and of our internal control over financial reporting and review of the interim financial statements included in Exchange Act filings. Also consists of fees billed for services that are normally provided by the independent registered public accountants in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

There were no fees billed to us by Mazars for the fiscal years ended December 2019 and 2018 for assurance and related services reasonably related to the performance of the audit or review of our financial statements.

Tax Fees

Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and local tax compliance, assistance with tax reporting requirements and audit compliance, value-added tax compliance, mergers and acquisitions tax compliance, and tax advice on federal and state tax matters.

All Other Fees

There were no fees billed to us by Mazars for the fiscal years ended December 2019 and 2018 for products and services other than the services reported above.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services to be provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to report periodically to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis. The Audit Committee has granted the Chairman of the Audit Committee, J. Lawrence Richards, the authority to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm so long as such approval is ratified by the Audit Committee in a timely manner. All fees for services provided by the independent registered public accounting firm were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. FINANCIAL STATEMENTS

The financial statements of Medallion Bank and the Report of Independent Public Accountants thereon are included as set forth on the Index to Financial Statements on F-1.

2. FINANCIAL STATEMENT SCHEDULES

See Index to Financial Statements on F-1.

3. EXHIBITS

The following documents are filed as exhibits hereto:

Exhibit Number	Description
3.1	Articles of Incorporation of Medallion Bank, dated May 7, 2002 (the "Articles of Incorporation") (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.2	Articles of Amendment to the Articles of Incorporation, dated February 19, 2009, amending and restating Article 3 of the Articles of Incorporation (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.3	Articles of Amendment to the Articles of Incorporation, dated February 19, 2009, adding a new Section 2 to Article 3 of the Articles of Incorporation setting forth the terms of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.4	Articles of Amendment to the Articles of Incorporation, dated February 19, 2009, adding a new Section 3 to Article 3 of the Articles of Incorporation setting forth the terms of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B* (incorporated by reference to Exhibit 3.4 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.5	Articles of Amendment to the Articles of Incorporation, dated December 17, 2009, adding a new Section 4 to Article 3 of the Articles of Incorporation setting forth the terms of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C (incorporated by reference to Exhibit 3.5 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.6	Articles of Amendment to the Articles of Incorporation, dated December 17, 2009, adding a new Section 5 to Article 3 of the Articles of Incorporation setting forth the terms of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D (incorporated by reference to Exhibit 3.6 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.7	Articles of Amendment to the Articles of Incorporation, dated June 23, 2011, adding a new Section 5 to Article 3 of the Articles of Incorporation setting forth the terms of Senior Non-Cumulative Perpetual Preferred Stock, Series E (incorporated by reference to Exhibit 3.7 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.8	Articles of Amendment to the Articles of Incorporation, dated June 23, 2011, amending and restating Section 5 to Article 3 of the Articles of Incorporation setting forth the terms of Senior Non-Cumulative Perpetual Preferred Stock, Series E (incorporated by reference to Exhibit 3.8 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.9	Articles of Amendment to the Articles of Incorporation, dated January 3, 2019, amending and restating Section 1(a) to Article 3 of the Articles of Incorporation (incorporated by reference to Exhibit 3.9 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
3.10	Articles of Amendment to the Articles of Incorporation, dated December 11, 2019, adding a new Section 6 to Article 3 of the Articles of Incorporation setting forth the terms of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F (incorporated by reference to Exhibit 3.10 to Amendment No. 1 to the Registrant's Registration Statement on Form 10, dated December 11, 2019)
3.11	Bylaws of Medallion Bank (incorporated by reference to Exhibit 3.11 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
4.1	Description of Medallion Bank's Securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.
10.1	Loan Servicing Agreement, dated December 17, 2010, between Medallion Servicing Corp. and Medallion Bank (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)

- 10.2 Amendment No. 1 to Loan Servicing Agreement, dated January 1, 2011, between Medallion Servicing Corp. and Medallion Bank (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.3 Amendment No. 2 to Loan Servicing Agreement, dated January 26, 2017, between Medallion Servicing Corp. and Medallion Bank (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.4 Corporate Services Agreement, dated December 22, 2003, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.5 Amendment No. 1 to Corporate Services Agreement, dated October 3, 2007, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.6 Amendment No. 2 to Corporate Services Agreement, dated August 29, 2008, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.7 Amendment No. 3 to Corporate Services Agreement, dated January 1, 2014, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.8 Amendment No. 4 to Corporate Services Agreement, dated October 16, 2015, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.9 Amendment No. 5 to Corporate Services Agreement, dated August 1, 2017, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.10 Amendment No. 6 to Corporate Services Agreement, dated December 28, 2017, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.11 Amended and Restated Tax Sharing Agreement, dated February 13, 2017, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.12 Amendment to Amended and Restated Tax Sharing Agreement, dated December 22, 2017, between Medallion Financial Corp. and Medallion Bank (incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.13 Amended and Restated Loan Marketing Agreement, dated December 17, 2010, between Medallion Bank and Medallion Funding LLC (incorporated by reference to Exhibit 10.13 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.14 Agreement of Lease, dated July 3, 2002, between B-LINE Holdings, L.C. and Medallion Bank (incorporated by reference to Exhibit 10.14 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.15 First Amendment of Lease Agreement, dated October 29, 2004, between B-LINE Holdings, L.C. and Medallion Bank (incorporated by reference to Exhibit 10.15 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.16 Assignment of Lease, dated July 6, 2006, between Medallion Bank and Zerop Medical, LLC, and consented and agreed to by B-LINE Holdings, L.C. (incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.17 Second Amendment of Lease Agreement, dated January 9, 2007, between B-LINE Holdings, L.C. and Medallion Bank (incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.18 Third Amendment of Lease Agreement, dated October 31, 2007, between B-LINE Holdings, L.C. and Medallion Bank (incorporated by reference to Exhibit 10.18 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.19 Third Amendment to Lease Agreement, dated November 15, 2011, between B-LINE Holdings, L.C. and Medallion Bank (incorporated by reference to Exhibit 10.19 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.20 Fourth Amendment to Agreement of Lease, dated November 21, 2011, between B-LINE Holdings, L.C. and Medallion Bank (incorporated by reference to Exhibit 10.20 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.21 Fifth Amendment to Agreement of Lease, dated November 26, 2012, between B-LINE Holdings, L.C. and Medallion Bank (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)

- 10.22 Sixth Amendment to Agreement of Lease, dated January 26, 2017, between Investment Property Group, LLC, successor-in-interest to B-LINE Holdings, L.C., and Medallion Bank (incorporated by reference to Exhibit 10.22 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.23 Seventh Amendment to Agreement of Lease, dated May 10, 2017, between Investment Property Group, LLC and Medallion Bank (incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.24 Eighth Amendment to Agreement of Lease, dated March 28, 2018, between Investment Property Group, LLC and Medallion Bank (incorporated by reference to Exhibit 10.24 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.25 Ninth Amendment to Agreement of Lease, dated August 19, 2019, between Investment Property Group, LLC and Medallion Bank (incorporated by reference to Exhibit 10.25 to the Registrant's Registration Statement on Form 10, dated December 9, 2019)
- 10.26 Amendment No. 7 to Corporate Services Agreement, dated January 1, 2020, between Medallion Financial Corp. and Medallion Bank
- Compensatory plans, contracts and arrangements are omitted pursuant to Item 601(b)(10)(iii)(C)(6) of Regulation S-K.
- 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

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange of Act of 1934, registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDALLION BANK

Date: March 30, 2020

By: /s/ Donald S. Poulton

Donald S. Poulton

President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Donald S. Poulton</u> Donald S. Poulton	President and Chief Executive Officer (Principal Executive Officer)	March 30, 2020
<u>/s/ Trent E. Hudson</u> Trent E. Hudson	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 30, 2020
<u>/s/ Alvin Murstein</u> Alvin Murstein	Chairman of the Board	March 30, 2020
<u>/s/ Andrew M. Murstein</u> Andrew M. Murstein	Director	March 30, 2020
<u>/s/ John Everets</u> John Everets	Director	March 30, 2020
<u>/s/ Brent O. Hatch</u> Brent O. Hatch	Director	March 30, 2020
<u>/s/ Robert M. Meyer</u> Robert M. Meyer	Director	March 30, 2020
<u>/s/ J. Lawrence Richards</u> J. Lawrence Richards	Director	March 30, 2020
<u>/s/ John M. Taggart</u> John M. Taggart	Director	March 30, 2020

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Medallion Bank

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Medallion Bank (the "Bank") (a wholly owned subsidiary of Medallion Financial Corp.) as of December 31, 2019 and 2018, and the related statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2019 and 2018, and the results of its operations, and its cash flows for each of the three years in the three-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Mazars USA LLP

We have served as the Bank's auditor since 2005.

New York, New York
March 30, 2020

MEDALLION BANK
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2019	2018	2017
Interest income:			
Investments	\$ 1,727	\$ 1,733	\$ 1,288
Loan interest including fees	124,996	114,340	109,993
Total interest income	126,723	116,073	111,281
Interest expense	22,521	17,844	13,869
Net interest income	104,202	98,229	97,412
Provision for loan losses	42,492	50,673	51,282
Net interest income after provision for loan losses	61,710	47,556	46,130
Other non-interest income	305	237	121
Write-downs of loan collateral in process of foreclosure	(2,543)	(12,590)	(6,259)
Gain on sale of loans	—	2,914	7,163
Total non-interest income (loss)	(2,238)	(9,439)	1,025
Non-interest expense:			
Loan servicing	10,610	10,211	9,833
Salaries and benefits	8,806	7,709	6,575
Professional fees	2,722	1,312	1,469
Collection costs	5,519	4,282	2,437
Regulatory fees	1,722	2,349	2,410
Occupancy and equipment	576	565	405
Other	3,527	2,451	4,380
Total non-interest expense	33,482	28,879	27,509
Income before income taxes	25,990	9,238	19,646
Provision for income taxes	5,544	3,572	15,093
Net income	20,446	5,666	4,553
Other comprehensive income, net of tax:			
Net change in unrealized gains (losses) on investment securities	1,081	(533)	159
Total comprehensive income	<u>\$ 21,527</u>	<u>\$ 5,133</u>	<u>\$ 4,712</u>

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

MEDALLION BANK
BALANCE SHEETS
(dollars in thousands)

	As of December 31, 2019	As of December 31, 2018
Assets		
Cash and federal funds sold	\$ 50,237	\$ 33,995
Investment securities, available-for-sale	48,998	45,324
Loans, inclusive of net deferred loan acquisition costs	1,079,553	938,222
Allowance for loan losses	(59,885)	(60,137)
Loans, net	1,019,668	878,085
Loan collateral in process of foreclosure	30,639	28,723
Fixed assets and right-of-use lease assets, net	3,852	513
Deferred tax assets ⁽¹⁾	11,419	11,648
Accrued interest receivable and other assets	28,417	24,224
Total assets	\$ 1,193,230	\$ 1,022,512
Liabilities and Shareholders' Equity		
Liabilities		
Funds borrowed ⁽²⁾	\$ 951,651	\$ 848,040
Accrued interest payable	2,096	1,730
Income tax payable	2,144	—
Other liabilities ⁽³⁾	9,157	5,476
Due to affiliates	1,041	271
Total liabilities	966,089	855,517
Commitments and Contingencies (Note 11)		
Shareholders' Equity		
Series E Preferred stock, \$1.00 par value, 26,303 and 26,303 shares authorized, issued, and outstanding as of December 31, 2019 and December 31, 2018, respectively	26,303	26,303
Series F Preferred stock, \$1.00 par value, 1,840,000 and 0 shares authorized, issued, and outstanding as of December 31, 2019 and December 31, 2018, respectively	42,485	—
Common stock, \$1.00 par value, 7,000,000 and 7,000,000 shares authorized as of December 31, 2019 and December 31, 2018, respectively; 1,000,000 and 1,000,000 shares issued and outstanding as of December 31, 2019 and December 31, 2018, respectively	1,000	1,000
Additional paid in capital	77,500	77,500
Accumulated other comprehensive income/(loss), net of tax	166	(916)
Retained earnings	79,687	63,108
Total shareholders' equity	227,141	166,995
Total liabilities and shareholders' equity	\$ 1,193,230	\$ 1,022,512

- (1) Includes \$513 of income tax payable as of December 31, 2018.
(2) Includes \$2,594 of deferred financing costs as of December 31, 2019.
(3) Includes \$3,475 of operating lease liabilities as of December 31, 2019.

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

MEDALLION BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(dollars in thousands)

	Preferred Stock		Common Stock			Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital			
Balance as of December 31, 2016	26,303	\$ 26,303	1,000,000	\$ 1,000	\$ 77,500	\$ (541)	\$ 57,623	\$ 161,885
Net income	—	—	—	—	—	—	4,553	4,553
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(2,367)	(2,367)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	159	—	159
Balance as of December 31, 2017	<u>26,303</u>	<u>\$ 26,303</u>	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 77,500</u>	<u>\$ (382)</u>	<u>\$ 59,809</u>	<u>\$ 164,230</u>
	Preferred Stock		Common Stock			Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital			
Balance as of December 31, 2017	26,303	\$ 26,303	1,000,000	\$ 1,000	\$ 77,500	\$ (382)	\$ 59,809	\$ 164,230
Net income	—	—	—	—	—	—	5,666	5,666
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(2,367)	(2,367)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	(534)	—	(534)
Balance as of December 31, 2018	<u>26,303</u>	<u>\$ 26,303</u>	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 77,500</u>	<u>\$ (916)</u>	<u>\$ 63,108</u>	<u>\$ 166,995</u>
	Preferred Stock		Common Stock			Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital			
Balance as of December 31, 2018	26,303	\$ 26,303	1,000,000	\$ 1,000	\$ 77,500	\$ (916)	\$ 63,108	\$ 166,995
Net income	—	—	—	—	—	—	20,446	20,446
Issuance of preferred stock - Series F	1,840,000	42,485	—	—	—	—	—	42,485
Dividends declared to MFIN	—	—	—	—	—	—	(1,500)	(1,500)
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(2,367)	(2,367)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	1,082	—	1,082
Balance as of December 31, 2019	<u>1,866,303</u>	<u>\$ 68,788</u>	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 77,500</u>	<u>\$ 166</u>	<u>\$ 79,687</u>	<u>\$ 227,141</u>

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

MEDALLION BANK
STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities			
Net income	\$ 20,446	\$ 5,666	\$ 4,553
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,419	5,556	5,065
Deferred tax benefit	340	2,643	4,731
Provision for loan losses	42,492	50,673	51,282
Provision for losses on other assets		5,161	1,476
Write-downs of loan collateral in process of foreclosure and other assets, net	2,543	12,571	6,261
Gain from sale of loans, net	—	(2,914)	(7,163)
Changes in operating assets and liabilities:			
Interest receivable	(1,247)	(514)	(582)
Other tax assets	1,631	(3,914)	8,236
Other assets	(1,075)	(5,870)	(4,564)
Interest payable	366	242	394
Other liabilities	207	1,154	380
Net cash provided by operating activities	72,122	70,454	70,069
Cash Flows from Investing Activities			
Increase in loans, net	(210,156)	(197,531)	(218,279)
Proceeds from sale of loans	—	105,919	231,906
Purchase of investments	(7,341)	(9,409)	(12,722)
Proceeds from maturity/sale of investments	5,071	6,732	6,452
Proceeds from sale of repossessed loan collateral	10,977	9,406	6,234
Purchase of fixed assets	(23)	(364)	(218)
Net cash (used in) provided by investing activities	(201,472)	(85,247)	13,373
Cash Flows from Financing Activities			
Issuance of time deposits and other borrowed funds	489,842	452,488	549,542
Repayments of funds borrowed	(383,637)	(511,295)	(551,236)
Federal funds purchased	4,000	13,000	28,000
Repayments of federal funds purchased	(4,000)	(13,000)	(28,000)
Change in due to affiliates	769	(271)	(29)
Issuance of preferred stock	42,485	—	—
Dividends paid to MFIN	(1,500)	—	—
Dividends paid on preferred stock - Series E	(2,367)	(2,367)	(2,367)
Net cash provided by (used for) financing activities	145,592	(61,445)	(4,090)
Net change in cash and cash equivalents	16,242	(76,238)	79,352
Cash and cash equivalents, beginning of the period	33,995	110,233	30,881
Cash and cash equivalents, end of the period	\$ 50,237	\$ 33,995	\$ 110,233
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$ 20,838	\$ 13,331	\$ 12,145
Cash paid for income taxes	3,574	4,842	4,762
Non-cash investing activities - loans transferred to loan collateral in process of foreclosure	28,672	33,170	44,968

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

MEDALLION BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

1. Organization and Summary of Significant Accounting Policies

Description of Business – Medallion Bank ("the Bank") is a 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 and to finance home improvements such as replacement windows and roofs. Prior to 2014 the Bank originated commercial loans to finance the purchase of taxi medallions, all of which are serviced by the Bank's affiliates who have extensive experience in this asset group. The 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 US 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.

Cash and cash equivalents – The Bank considers all highly liquid instruments with an original purchased maturity of three months or less to be cash equivalents. A non-interest bearing compensating balance of \$100,000 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.

Investment securities – FASB ASC Topic 320, "Investments – Debt and Equity Securities," requires that all applicable investments 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 December 31, 2019 and 2018, the net premium on investment securities totaled \$248,000 and \$154,000, and \$79,000, \$101,000, and \$81,000 was amortized to interest income for the years ended December 31, 2019, 2018, and 2017. The Bank had \$49.0 million and \$45.3 million of available-for-sale securities at fair value as of December 31, 2019 and 2018. 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 (\$386,000) and \$1,099,000 of pretax net unrealized (loss)/gain on available-for-sale securities as of December 31, 2019 and 2018. 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.

Loans – On the Bank's Balance Sheet, loans are reported at the principal amount outstanding, inclusive of deferred loan acquisition costs, which primarily includes deferred fees paid to loan originators, and which is amortized to interest income over the life of the loan. Otherwise, throughout the remainder of these financial statements, loans are reported at only the principal amount outstanding.

Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment to the yield of the related loans. At December 31, 2019 and 2018, net loan origination costs were \$17.8 million and \$14.4 million. Net amortization expense for the years ended December 31, 2019, 2018, and 2017 was \$4.9 million, \$4.0 million, and \$3.5 million.

Interest income is recognized on an accrual basis. Medallion and commercial 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. In 2018, the Bank adopted a policy to charge-off all medallion loans which reached 120 days past due (previously 180 days past due) down to their net realizable value and then generally moves the remaining balances to repossessed loan collateral on the balance sheet. The consumer portfolio has different characteristics than commercial 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 (recreation loans in bankruptcy are not charged-off at 120 days), whichever occurs first, at which time appropriate collection and recovery efforts against both the borrower and the underlying

collateral are initiated. 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 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 to write 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 loans 90 days or more past due were \$6.5 million, \$18.6 million, and \$16.5 million at December 31, 2019, 2018, and 2017, or 0.6%, 2.0%, and 1.8% of the total loan portfolio.

At December 31, 2019, \$7.9 million or 1% of recreation loans, \$185,000 or 0% of home improvement loans, no commercial loans, and \$3.1 million or 3% of medallion loans were on nonaccrual, compared to \$5.8 million or 1% of recreation loans, \$138,000 or 0% of home improvement loans, no commercial loans, and \$16.0 million or 10% medallion loans on nonaccrual at December 31, 2018. 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 \$342,000 (\$163,000 of which had been applied to principal), \$608,000 and \$1,487,000 as of December 31, 2019, 2018, and 2017.

Nonperforming commercial 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 discounted cash flow model. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on a cash basis and applied to principal until qualifying 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.

Troubled Debt Restructurings (TDRs) – In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession for other than an insignificant period of time to the borrower that the Bank would not otherwise consider, the related loan is classified as a TDR. The Bank strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before it reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, term extensions, payment forbearance and other actions 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. Loans classified as TDRs are considered impaired loans.

When the Bank identifies a loan as impaired, the Bank measures the impairment 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.

In 2019, the Bank changed its accounting methodology for Chapter 13 bankruptcies, and now accounts for such bankruptcies as troubled debt restructured loans, which are nonperforming loans.

Allowance for loan losses – In analyzing the adequacy of the allowance for loan losses, the Bank uses historical delinquency and actual loss rates with a three-year look-back period for medallion loans and a one-year look-back period for consumer loans. The allowance is evaluated on a regular basis by management and 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 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.

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.

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 \$1,081,000, (\$533,000), and \$159,000 of net unrealized gains/(loss) due to the change in fair value of available-for-sale securities for the years ended December 31, 2019, 2018, and 2017.

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 13 to the 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 entities 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 14 to the financial statements.

Stock compensation - Employees and officers of the Bank are eligible to participate in MFIN’s restricted stock and stock option plans (the “Plans”). The Plans provide for grants of both incentive and nonqualified stock options and restricted stock to employees. The Plans are 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 the period of ten years, and the terms of the restricted stock grants are determined by the Compensation Committee of the Board of Directors of MFIN. The Bank’s stock based compensation expense was \$434,000, \$219,000, and \$176,000 for the years ended December 31, 2019, 2018, and 2017, allocated to the Bank by MFIN in connection with the allocation component of expenses and are included in salary and benefits cost.

Reclassifications – Certain reclassifications have been made to prior year balances to conform with the current year presentation. These reclassifications have no effect on the previously reported results of operations.

Recently Issued Accounting Standards — In December 2019, the FASB issued ASU 2019-12 “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.” The objective of this update is to simplify the accounting for income taxes by removing certain exceptions to the general principles and improve consistent application of and simplify other areas of Topic 740. The amendments in this update are effective for annual periods beginning after December 15, 2020, and interim periods within those fiscal years. We do not believe this update will have a material impact on our financial condition.

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-13, “Fair Value Measurement—Changes to the Disclosure Requirements for Fair Value Measurement.” This update eliminates the requirements to disclose the amount and reason for transfers between Level 1 and Level 2 fair value methodology, the policy for the timing of transfers between levels and the valuation process for Level 3 fair value measurements. ASU 2018-13 requires an entity to disclose relevant quantitative information used to develop Level 3 fair value measurements. ASU 2018-13 is effective for public entities for fiscal years beginning after December 15, 2019 and is not expected to have a significant impact on the Bank’s financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” and subsequent amendments to the initial guidance in November 2018, ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, in April 2019, ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, and in May 2019, ASU 2019-05, Financial Instruments – Credit Losses, Topic 326, all of which clarifies codification and corrects unintended application of the guidance. The main objective of this new standard is to provide financial statement users with more decision-useful information about the expected credit losses on financial assets and other commitments to extend credit held by a reporting entity at each reporting date. Effective dates vary according to business entity type, and early adoption is permitted for all entities. The aftermath of the global economic crisis and the delayed recognition of credit losses associated with loans (and other financial instruments) was identified as a weakness in the application of existing accounting standards. Specifically, because the existing “incurred” loss model delays recognition until it is probable a credit loss was incurred, the FASB explored alternatives that would use more forward-looking information. Under the FASB’s new standard, the concepts used by entities to account for credit losses on financial instruments will fundamentally change. The existing “probable” and “incurred” loss recognition threshold is removed. Loss estimates are based upon lifetime “expected” credit losses. The use of past and current events must now be supplemented with

“reasonable and supportable” expectations about the future to determine the amount of credit loss. The collective changes to the recognition and measurement accounting standards for financial instruments and their anticipated impact on the allowance for credit losses modeling have been universally referred to as the CECL (current expected credit loss) model. ASU 2016-13 applies to all entities and is effective for fiscal years beginning after December 15, 2019 for public entities that are not “smaller reporting companies” as defined by the Securities and Exchange Commission and is effective, per the vote by FASB in October 2019, for fiscal years beginning after December 15, 2022 for all other entities, with early adoption permitted. As an emerging growth company, the Bank is permitted, and has elected, to take advantage of an extended transition period for complying with new or revised accounting standards applicable to public companies that are not “smaller reporting companies” and, as a result, the Bank will be required to comply with the CECL model for fiscal years beginning after December 15, 2022. The Bank is assessing the impact the update will have on its financial statements, but anticipates an increase in its allowance and that there will be earlier recognition of credit losses and potentially greater volatility in the allowance and provisions.

2. Investment Securities

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

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities, principally obligations of US federal agencies	\$ 36,335	\$ 411	\$ (112)	\$ 36,634
State and municipalities	12,279	186	(101)	12,364
Total	<u>\$ 48,614</u>	<u>\$ 597</u>	<u>\$ (213)</u>	<u>\$ 48,998</u>

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities, principally obligations of US federal agencies	\$ 32,184	\$ 15	\$ (742)	\$ 31,456
State and municipalities	14,239	35	(407)	13,868
Total	<u>\$ 46,423</u>	<u>\$ 50</u>	<u>\$ (1,149)</u>	<u>\$ 45,324</u>

The amortized cost and estimated market value of investment securities as of December 31, 2019 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.

	December 31, 2019	
	Amortized Cost	Market Value
	(in thousands)	
Due in one year or less	\$ 2,035	\$ 2,029
Due after one year through five years	10,254	10,281
Due after five years through ten years	10,052	10,101
Due after ten years	26,273	26,587
Total	<u>\$ 48,614</u>	<u>\$ 48,998</u>

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:

	December 31, 2019			
	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 US federal agencies	\$ (74)	\$ 8,291	\$ (38)	\$ 4,939
State and municipalities	(17)	2,099	(84)	2,739
Total	\$ (91)	\$ 10,390	\$ (122)	\$ 7,678

	December 31, 2018			
	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 US federal agencies	\$ (54)	\$ 4,616	\$ (689)	\$ 24,871
State and municipalities	(78)	5,429	(329)	6,259
Total	\$ (132)	\$ 10,045	\$ (1,018)	\$ 31,130

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, and the Bank has the intent and ability to hold the securities for the foreseeable future. The fair value is expected to recover as the bonds approach the maturity date.

3. Loans and Allowance for Loan Losses

Loans, net of unearned income are summarized as follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
Recreation ⁽¹⁾	\$ 699,545	\$ 580,790
Home Improvement ⁽¹⁾	252,068	187,419
Medallion ⁽²⁾	108,351	153,742
Other commercial ⁽²⁾	1,833	1,886
Deferred loan acquisition costs, net	17,756	14,385
Total loans	\$ 1,079,553	\$ 938,222

(1) Collectively evaluated for impairment

(2) Individually evaluated for impairment

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

	Recreation ⁽¹⁾	Home Improvement ⁽¹⁾	Medallion ⁽²⁾	Other commercial ⁽²⁾	Total
	(in thousands)				
Balance as of 12/31/2018	\$ 20,437	\$ 3,556	\$ 36,116	\$ 28	\$ 60,137
Provision for loan losses	27,908	1,488	13,100	(4)	42,492
Loan charge-offs	(27,545)	(2,915)	(24,263)	—	(54,723)
Recoveries	7,011	1,718	3,248	3	11,980
Balance as of 12/31/2019	\$ 27,811	\$ 3,847	\$ 28,201	\$ 27	\$ 59,885

(1) Collectively evaluated for impairment

(2) Individually evaluated for impairment

There were no loans acquired with deteriorated credit quality.

See Note 1 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. In 2019, the Bank changed its accounting methodology for Chapter 13 bankruptcies, and now accounts for such bankruptcies as troubled debt restructured loans, which are nonperforming loans. The numbers for prior years have not been revised to reflect this change in accounting methodology.

Other commercial or construction loans are infrequent, and made on a case by case basis, after performing thorough borrower review, 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.

The recreation and home improvement loan portfolios are primarily customer 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. The recreation and home improvement loan portfolios are analyzed and evaluated in the aggregate as pools of loans.

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 loan portfolio by its performance status and by type:

	Performing		Nonperforming		Total	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	(in thousands)					
Medallion	\$ 74,236	\$ 126,677	\$ 34,115	\$ 27,065	\$ 108,351	\$ 153,742
Other commercial	1,833	1,886	—	—	1,833	1,886
Recreation	691,644	575,165	7,901	5,625	699,545	580,790
Home Improvement	251,883	187,282	185	137	252,068	187,419
Total	\$ 1,019,596	\$ 891,010	\$ 42,201	\$ 32,827	\$ 1,061,797	\$ 923,837

The following tables provide additional information on attributes of the nonperforming loan portfolio as of December 31, 2019 and 2018, all of which had an allowance recorded against the principal balance.

	December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
With an allowance recorded					
Medallion	\$ 34,115	\$ 34,115	\$ 12,941	\$ 34,280	\$ 260
Other commercial	—	—	—	—	—
Recreation	7,901	7,901	314	8,312	471
Home Improvement	185	185	3	185	—
Total nonperforming loans with an allowance	\$ 42,201	\$ 42,201	\$ 13,258	\$ 42,777	\$ 731

	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
With an allowance recorded					
Medallion	\$ 27,065	\$ 27,065	\$ 14,770	\$ 23,536	\$ 333
Other commercial	—	—	—	—	—
Recreation	5,625	5,625	198	4,725	408
Home Improvement	137	137	3	158	5
Total nonperforming loans with an allowance	\$ 32,827	\$ 32,827	\$ 14,971	\$ 28,419	\$ 746

The tables below show the aging of all loan types:

December 31, 2019							
Days Past Due							
	30-59	60-89	90+	Total Past Due	Current	Total	Recorded Investment 90+ Days and Accruing
(in thousands)							
Medallion	\$ 9,438	\$ 556	\$ 344	\$ 10,338	\$ 98,013	\$ 108,351	\$ —
Other commercial	—	—	—	—	1,833	1,833	—
Recreation	27,936	8,603	5,935	\$ 42,474	\$ 657,071	699,545	—
Home Improvement	938	431	185	1,554	250,514	252,068	—
Total	<u>\$ 38,312</u>	<u>\$ 9,590</u>	<u>\$ 6,464</u>	<u>\$ 54,366</u>	<u>\$ 1,007,431</u>	<u>\$ 1,061,797</u>	<u>\$ —</u>

December 31, 2018							
Days Past Due							
	30-59	60-89	90+	Total Past Due	Current	Total	Recorded Investment 90+ Days and Accruing
(in thousands)							
Medallion	\$ 5,448	\$ 839	\$ 14,166	\$ 20,453	\$ 133,289	\$ 153,742	\$ —
Other commercial	—	—	—	—	1,886	1,886	—
Recreation	20,189	6,395	4,267	\$ 30,851	\$ 549,939	580,790	—
Home Improvement	734	300	137	1,171	186,248	187,419	—
Total	<u>\$ 26,371</u>	<u>\$ 7,534</u>	<u>\$ 18,570</u>	<u>\$ 52,475</u>	<u>\$ 871,362</u>	<u>\$ 923,837</u>	<u>\$ —</u>

The following table shows the troubled debt restructurings which the Bank entered into during the year ended December 31, 2019.

December 31, 2019			
	Number of Loans	Pre-Modification Investment	Pre-Modification Investment
(dollars in thousands)			
Recreation loans	294	\$ 4,433	\$ 2,831
Medallion loans	47	\$ 26,169	\$ 26,169

During the year ended December 31, 2019, no medallion loans modified as a troubled debt restructuring were in default and 213 recreation loans modified as troubled debt restructuring were in default and had an investment value of \$1,905,000 as of December 31, 2019, net of a \$76,000 allowance for loan losses.

The following table shows the troubled debt restructurings which the Bank entered into during the year ended December 31, 2018.

December 31, 2018			
	Number of Loans	Pre-Modification Investment	Pre-Modification Investment
(dollars in thousands)			
Medallion loans	3	\$ 3,520	\$ 3,520

During the year ended December 31, 2018, no loans modified as a troubled debt restructuring were in default.

4. Fixed Assets

Fixed assets and their related useful lives were as follows:

	Useful lives	As of December 31, 2019	As of December 31, 2018
(in thousands)			
Computer software	3 years	\$ 229	\$ 468
Equipment	5 years	17	25
Furniture and fixtures	5-10 years	318	311
Leasehold improvements	3-5 years	123	129
Telephone equipment	3 years	39	30
		726	963
Less accumulated depreciation and amortization		(333)	(450)
Net fixed assets		\$ 393	\$ 513

Depreciation expense was \$143,000, \$193,000 and \$138,000 for the years ended December 31, 2019, 2018 and 2017.

5. Funds Borrowed

The scheduled maturities of all borrowed funds, which were primarily composed of brokered certificates of time deposit, were as follows:

	December 31, 2019 ⁽¹⁾
(in thousands)	
2020	312,993
2021	223,865
2022	211,605
2023	118,740
2024	87,042
Total	\$ 954,245

(1) Excludes \$2,594 of deferred financing costs.

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 December 31, 2019 and December 31, 2018 was \$2.6 million and \$2.2 million, of which \$1.3 million and \$1.3 million was amortized to interest expense for the year ended December 31, 2019 and 2018. Interest on the deposits is accrued daily and paid monthly, quarterly, semiannually, or at maturity. All time deposits are in denominations of less than \$250,000 and have been originated through certificate of deposit broker relationships. The weighted average interest rate of deposits outstanding as of December 31, 2019 and December 31, 2018 was 2.35% and 2.14%.

The following table presents time deposits of \$100,000 or more by their maturity:

	As of December 31, 2019	As of December 31, 2018
(in thousands)		
Three months or less	\$ 83,100	\$ 72,280
Over three months through six months	111,413	110,012
Over six months through one year	118,480	143,598
Over one year	641,252	522,150
Total⁽¹⁾	\$ 954,245	\$ 848,040

(1) Excludes \$2,594 of deferred financing costs as of December 31, 2019.

As of December 31, 2019 and 2018, the Bank had unsecured and undrawn Federal Funds lines with correspondent banks of \$45 million and \$45 million.

6. Income Taxes

The components of the Bank's tax (provision) benefit for the years ended December 31 were as follows.

	As of December 31,		
	2019	2018	2017
	(dollars in thousands)		
Current			
Federal	\$ 4,254	\$ 210	\$ 10,145
State	951	688	218
Deferred			
Federal	1,157	1,514	(2,255)
Federal income tax rate change	—	—	7,396
State	(818)	1,160	(411)
Net (provision) benefit for income taxes	<u>\$ 5,544</u>	<u>\$ 3,572</u>	<u>\$ 15,093</u>

The following table presents a reconciliation of statutory federal income tax (provision) benefit to actual income tax (provision) benefit reported for the years ended December 31.

	As of December 31,		
	2019	2018	2017
	(dollars in thousands)		
Statutory Federal income tax (provision) benefit at 21% (35% in 2017)	\$ 5,459	\$ 1,940	\$ 6,876
State and local income taxes, net of federal income tax benefit	1,437	438	766
Change in effective state income tax rate	(1,554)	1,343	—
Federal income tax rate change	—	—	7,396
Other	202	(149)	55
Total income tax (provision) benefit	<u>\$ 5,544</u>	<u>\$ 3,572</u>	<u>\$ 15,093</u>

The following table sets forth the significant components of the Bank's deferred and other tax assets and liabilities as of December 31, 2019 and 2018.

	As of December 31,	
	2019	2018
	(dollars in thousands)	
Provision for loan losses	\$ 16,236	\$ 15,252
Deferred loan acquisition costs	(4,886)	(3,708)
Unrealized gains on investments	(64)	339
Other	134	278
Net deferred tax asset	<u>11,420</u>	<u>12,161</u>
Prepaid (accrued) taxes ⁽¹⁾	—	(513)
Net deferred tax and other assets	<u>\$ 11,420</u>	<u>\$ 11,648</u>

(1) Included in Income tax payable as of December 31, 2019

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 December 31, 2019 and December 31, 2018.

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 a MFIN consolidated tax return, pursuant to which MFIN charges the Bank for any taxes owed and reimburses the Bank for tax attributes 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 taxi medallion and commercial loans aggregated \$110.2 million and \$155.6 million as of December 31, 2019 and 2018. These loans are sourced and serviced by its affiliates. The Bank paid \$4.8 million, \$5.2 million and \$5.3 million of loan servicing fees to MFIN affiliates for the years ended December 31, 2019, 2018 and 2017. Amortization costs were (\$3,000), \$23,000 and \$92,000 for the years ended December 31, 2019, 2018 and 2017.

As of December 31, 2019 and 2018 the Bank owed \$941,000 and \$749,000 to affiliates for monthly servicing fees on loans, charges for corporate overhead, and legal and business development expenses due to the affiliates, partially offset by payments due the Bank from collection of loan payments by affiliates. As of December 31, 2019 and 2018 the Bank held a \$100,000 collateral deposit due to MFIN. The Bank reimbursed MFIN for expenses incurred on its behalf of \$1,024,000, \$849,000 and \$865,000 for the years ended December 31, 2019, 2018 and 2017.

8. 401(k) Plan

The Bank participates in the 401(k) Plan offered by MFIN. The 401(k) Plan covers all full and part-time employees of the Bank who have attained the age of 21, have a minimum of one year of service, and have worked 1,000 hours in a given calendar year. 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. MFIN matches employee contributions to the 401(k) Plan in an amount per employee equal to one-third of the first 6% of the employee's annual contributions, subject to legal limits. The Bank provided \$86,000, \$78,000 and \$70,000 in employer matching for the years ended December 31, 2019, 2018 and 2017.

9. Quarterly Results of Operations (Unaudited)

The following table presents the Bank's quarterly results of operations for the years ended December 31, 2019, 2018, and 2017.

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
	<i>(in thousands)</i>			
2019 Quarter Ended				
Net Interest Income	\$ 23,910	\$ 25,448	\$ 27,110	\$ 27,735
Income before income taxes	\$ 2,420	\$ 2,759	\$ 11,906	\$ 8,905
Net income after taxes	\$ 2,393	\$ 2,069	\$ 9,286	\$ 6,699
2018 Quarter Ended				
Net Interest Income	\$ 23,265	\$ 24,439	\$ 26,084	\$ 24,441
Income (loss) before income taxes	\$ (12,105)	\$ 1,736	\$ 14,887	\$ 4,720
Net income (loss) after taxes	\$ (8,782)	\$ 1,302	\$ 10,725	\$ 2,422
2017 Quarter Ended				
Net Interest Income	\$ 23,222	\$ 23,475	\$ 25,599	\$ 25,117
Income before income taxes	\$ 6,632	\$ 3,245	\$ 8,120	\$ 1,650
Net income (loss) after taxes	\$ 4,176	\$ 1,606	\$ 5,180	\$ (6,409)

10. Segment Reporting

The Bank has four business segments, which reflect the main types of lending performed at the Bank, which are Recreation Lending, Home Improvement Lending, Medallion Lending and Other. 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 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 financial service providers to finance residential home improvements concentrated in pools, solar panels, and roofing. The Medallion Lending segment arose in connection with the financing of taxi medallions. The Other segment includes loans that are not recreation, home improvement or medallion loans as well as 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 table presents segment results for the periods indicated.

Year Ended December 31, 2019

<i>(Dollars in thousands)</i>	Recreation	Home Improvement	Medallion	Other	Total
Total interest income	\$ 99,710	\$ 20,359	\$ 4,747	\$ 1,907	\$ 126,723
Total Interest expense	13,797	4,597	2,489	1,638	22,521
Net interest income	85,913	15,762	2,258	269	104,202
Provision for loan losses	27,908	1,488	13,100	(4)	42,492
Other income (expense)	(19,069)	(6,233)	(10,319)	(99)	(35,720)
Net income before taxes	38,936	8,041	(21,161)	174	25,990
Income tax benefit (provision)	14,701	3,194	(12,443)	92	5,544
Net income (loss) after tax	\$ 24,235	\$ 4,847	\$ (8,718)	\$ 82	\$ 20,446
Balance Sheet Data					
Total loans net	\$ 699,545	\$ 252,068	\$ 108,351	\$ 1,833	\$ 1,061,797
Total assets	716,098	249,232	121,611	108,880	1,195,821
Total funds borrowed	656,702	180,865	76,570	40,108	954,245
Selected Financial Ratios					
Return on average assets	3.64%	2.26%	(6.48%)	0.09%	1.85%
Return on average equity	22.54	14.02	(40.12)	0.56	11.46
Interest yield	15.38	9.39	3.72	9.64	11.78
Net interest margin	13.25	7.27	1.77	14.47	10.48
Reserve coverage	3.98	1.53	26.03	1.47	5.64
Delinquency status	6.07	0.62	9.54	—	5.12
Charge-off ratio	3.17	0.55	16.49	(0.19)	4.30

Year Ended December 31, 2018

<i>(Dollars in thousands)</i>	Recreation	Home Improvement	Medallion	Other	Total
Total interest income	\$ 89,663	\$ 18,035	\$ 6,348	\$ 2,027	\$ 116,073
Total Interest expense	10,084	3,325	3,022	1,413	17,844
Net interest income	79,579	14,710	3,326	614	98,229
Provision for loan losses	17,915	2,159	30,576	23	50,673
Other income (expense)	(14,247)	(4,177)	(20,475)	581	(38,318)
Net income before taxes	47,417	8,374	(47,725)	1,172	9,238
Income tax benefit (provision)	14,325	2,456	(13,355)	146	3,572
Net income (loss) after tax	\$ 33,092	\$ 5,918	\$ (34,370)	\$ 1,026	\$ 5,666
Balance Sheet Data					
Total loans net	\$ 580,790	\$ 187,419	\$ 153,742	\$ 1,886	\$ 923,837
Total assets	589,242	181,850	146,377	85,415	1,002,884
Total funds borrowed	551,332	156,097	102,909	37,702	848,040
Selected Financial Ratios					
Return on average assets	5.62%	3.25%	(23.48%)	1.20%	0.54%
Return on average equity	35.86	20.78	(149.93)	7.68	3.51
Interest yield	15.81	9.49	3.38	2.09	11.14
Net interest margin	14.03	7.74	1.77	25.88	9.44
Reserve coverage	3.52	1.90	23.49	1.50	6.51
Delinquency status	5.31	0.62	13.30	—	5.68
Charge-off ratio	2.72	0.89	19.60	(37.72)	5.60

Year Ended December 31, 2017

<i>(Dollars in thousands)</i>	Recreation	Home Improvement	Medallion	Other	Total
Total interest income	\$ 82,083	\$ 19,867	\$ 7,994	\$ 1,338	\$ 111,282
Total Interest expense	7,244	2,604	2,964	1,056	13,868
Net interest income	74,839	17,263	5,030	282	97,414
Provision for loan losses	13,884	928	36,490	(21)	51,281
Other income (expense)	(10,511)	(320)	(13,779)	(1,874)	(26,484)
Net income before taxes	50,444	16,015	(45,239)	(1,571)	19,649
Income tax benefit (provision)	18,477	5,435	(8,790)	(28)	15,094
Net income (loss) after tax	\$ 31,967	\$ 10,580	\$ (36,449)	\$ (1,543)	\$ 4,555
Balance Sheet Data					
Total loans net	\$ 517,347	\$ 175,942	\$ 222,806	\$ 1,044	\$ 917,139
Total assets	530,822	173,306	210,249	162,977	1,077,354
Total funds borrowed	543,485	177,259	136,262	49,742	906,748
Selected Financial Ratios					
Return on average assets	6.02%	6.10%	(17.34%)	(0.95%)	0.42%
Return on average equity	38.46	38.98	(110.71)	(6.05)	2.71
Interest yield	15.55	9.55	3.12	1.64	10.37
Net interest margin	14.18	8.30	1.96	22.56	9.08
Reserve coverage	3.47	1.75	19.02	0.28	6.91
Delinquency status	4.93	0.85	16.69	—	7.00
Charge-off ratio	2.24	0.98	11.26	(1.63)	4.30

11. Commitments and Contingencies

Loans – As of December 31, 2019 and 2018, the Bank had no commitments to extend credit to customers for unfunded amounts.

Leases – The Bank adopted ASC 842 using the modified retrospective approach, electing the practical expedient that allows the Bank not to restate comparative periods prior to the adoption of the standard on January 1, 2019. As such, the disclosures required under ASC 842 are not presented for periods before the date of adoption. For the comparative periods prior to adoption, the disclosures which were required under ASC 840 are presented.

Adoption of the new standard resulted in recording of net operating lease right-of-use assets and lease liabilities of approximately \$1.6 million as of January 1, 2019. The standard did not materially impact net earnings and cash flows.

The Bank leases office space under two non-cancelable operating leases that expire in October 2027 and November 2022. 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. For leases beginning in 2019 and later, 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 (dollar amounts in thousands):

	<u>December 31, 2019</u> (in thousands)
Assets	
Operating lease right-of-use assets	<u>\$ 3,459</u>
Liabilities	
Operating lease liabilities	<u>\$ 3,475</u>

Lease expense is recognized on a straight-line basis over the term of the lease. Operating lease cost related to the leases was \$433,000, \$372,000 and \$267,000 for the years ended December 31, 2019, 2018 and 2017.

Supplemental cash flow information related to operating leases for the year ended December 31, 2019 was as follows:

- Payments of \$433,000 against amounts included in the measurement of lease liabilities.
- Lease assets obtained in exchange for lease liabilities totaled \$1.8 million.

The weighted-average remaining lease term for operating leases was 7.7 years. The weighted-average discount rate for operating leases was 6.75% as of December 31, 2019.

There were no material operating leases that the Bank entered into and that were yet to commence as of December 31, 2019.

	<u>December 31, 2019</u> (in thousands)
2020	\$ 559
2021	576
2022	582
2023	543
2024	559
Thereafter	1,677
Total lease payments	<u>4,496</u>
Less imputed interest	(1,021)
Present value of lease liabilities	<u>\$ 3,475</u>

12. Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation (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.

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 loan losses be maintained. As of December 31, 2019 and December 31, 2018, the Bank's Tier 1 leverage capital ratio was 19.4% and 15.8%. The Bank's actual capital amounts and ratios and the regulatory minimum ratios are presented in the following table (dollars in thousands):

	December 31, 2019		December 31, 2018		Minimum Regulatory Requirements as of December 31, 2018	Minimum Regulatory Requirements as of December 31, 2019	Well-Capitalized Requirements
	Amount	Ratio	Amount	Ratio			
(dollars in thousands)							
Tier 1 leverage capital	\$ 226,975	19.4%	\$ 167,911	15.8%	4.0%	4.0%	5.0%
CET1 risk-based capital	\$ 158,187	13.8	141,608	14.3	6.4	7.0	6.5
Tier 1 risk-based capital	\$ 226,975	19.8	167,911	16.9	7.9	8.5	8.0
Total risk-based capital	\$ 241,842	21.1	180,917	18.2	9.9	10.5	10.0

In the table above, the minimum risk-based ratios as of December 31, 2018 reflect the 75% phase-in of the capital conservation buffer of 2.5%, and the minimum risk-based ratios as of December 31, 2019 reflect the capital conservation buffer of 2.5%. The "well-capitalized" requirements were the binding requirements for risk-based capital ratios as of December 2018 because of the transitional provisions then applicable to the capital conservation buffer and were the binding requirements for Tier 1 leverage capital as of both December 2019 and December 2018.

13. 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) **Cash and federal funds sold** – Book value equals market value.
- (d) **Accrued interest receivable** – Book value equals market value.
- (e) **Floating rate borrowings**—Due to the short-term nature of these instruments, the carrying amount approximates fair value.
- (f) **Fixed rate borrowings** – Due to the short-term nature of these instruments, the carrying amount approximates fair value.
- (g) **Accrued interest payable** – Due to the short-term nature of these instruments, the carrying amount approximates fair value.

(h) **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 December 31, 2019 and December 31, 2018, the estimated fair value of these off-balance sheet instruments was not material.

The Bank's financial instruments consisted of the following:

	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
Financial Assets				
Loans, net	\$ 1,019,668	\$ 1,019,668	\$ 878,085	\$ 878,085
Investment securities	48,998	48,998	45,324	45,324
Cash and federal funds sold	50,237	50,237	33,995	33,995
Accrued interest receivable	8,497	8,497	7,251	7,251
Financial Liabilities				
Funds borrowed ⁽¹⁾	954,245	954,245	848,040	848,040
Accrued interest payable	2,096	2,096	1,730	1,730

(1) Excludes \$2,594 of deferred financing costs as of December 31, 2019.

14. 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, 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 US 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 price 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 liability (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:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Available-for-sale investment securities ⁽¹⁾	\$ —	\$ 48,998	\$ —	\$ 48,998

(1) Total unrealized gain of \$1,081 net of tax was included in accumulated other comprehensive income (loss) for the year ended December 31, 2019 related to these assets.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Available-for-sale investment securities ⁽¹⁾	\$ —	\$ 45,324	\$ —	\$ 45,324

(1) Total unrealized loss of (\$533) net of tax was included in accumulated other comprehensive income (loss) for the year ended December 31, 2018 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 December 31, 2019 and December 31, 2018 (in thousands):

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets ⁽¹⁾				
Impaired loans	\$ —	\$ —	\$ 28,830	\$ 28,830
Loan collateral in process of foreclosure	—	—	30,639	30,639
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 59,469</u>	<u>\$ 59,469</u>

(1) Total unrealized losses of \$13,258 for impaired loans and \$0 for repossessed loan collateral related to these assets were included in income for the year ended December 31, 2019.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets ⁽¹⁾				
Impaired loans	\$ —	\$ —	\$ 17,575	\$ 17,575
Loan collateral in process of foreclosure	—	—	28,723	28,723
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 46,298</u>	<u>\$ 46,298</u>

(1) Total unrealized losses of \$14,970 for impaired loans and \$0 or repossessed loan collateral related to these assets were included in income for the year ended December 31, 2018.

15. 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, 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 expected to be three-month Term SOFR, which is based on the Secured Overnight Financing Rate or SOFR) plus a spread of 6.46% per annum.

16. 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; 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 first quarter of 2016.

17. Subsequent Events

The Bank evaluated the effects of events that have occurred subsequent to the year ended December 31, 2019, through the date of financial statement issuance.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the Bank's financial position, results of operations, and cash flows. The COVID-19 outbreak in the US may disrupt the Bank's operations through its impact on its employees and borrowers. Disruptions to the Bank's borrowers may impair their ability to fulfill their obligations to the Bank, and result in increased risk of delinquencies, defaults, foreclosures, declining collateral values, loan losses, and other financial impacts. The Bank has taken steps to operate through this crisis, for example, by having employees work remotely, and negotiating with borrowers as to payment terms and adjusting its related policies and procedures. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time, but could be material.

On February 7, 2020, the Bank's Board of Directors declared a \$0.58 per share cash dividend on the its Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, to shareholders of record at the close of business on March 16, 2020, that will be paid on April 1, 2020.

On March 9, 2020, the Bank's Board of Directors declared a \$1.5 million cash dividend to MFIN, the sole shareholder of its common stock, that was paid on March 20, 2020.

On March 11, 2020, the Bank signed an agreement with its first Strategic Partnership Program partner.

CERTIFICATIONS
Certification of Donald S. Poulton

I, Donald S. Poulton, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 annual 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 annual 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 annual report is being prepared;
 - b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
 - 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: March 30, 2020

By: /s/ Donald S. Poulton

Donald S. Poulton
President and Chief Executive Officer

CERTIFICATIONS
Certification of Trent E. Hudson

I, Trent E. Hudson, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 annual 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 annual 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 annual report is being prepared;
 - b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
 - 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: March 30, 2020

By: /s/ Trent E. Hudson

Trent E. Hudson
Senior Vice President and
Chief Financial Officer

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

In connection with the Annual Report on Form 10-K of Medallion Bank (the “Bank”) for the year ended December 31, 2019 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: March 30, 2020

By: /s/ Donald S. Poulton
Donald S. Poulton
President and Chief Executive Officer

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

In connection with the Annual Report on Form 10-K of Medallion Bank (the “Bank”) for the year ended December 31, 2019 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: March 30, 2020

By: /s/ Trent E. Hudson
Trent E. Hudson
Senior Vice President and
Chief Financial Officer