REFINITIV

DELTA REPORT

10-Q

MBINO - MERCHANTS BANCORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	2551
CHANGES	484
DELETIONS	1063
ADDITIONS	1004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023 March 31, 2024

OR

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

For the transition period from ____________ to _______________

Commission File No. 001-38258

MERCHANTS BANCORP

(Exact name of registrant as specified in its charter)

Indiana	20-5747400
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
410 Monon Blvd. Carmel, Indiana	46032
(Address of principal executive office)	(Zip Code)

(317) 569-7420

(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐	Smaller reporting company ☐
			Emerging growth company ☐

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, without par value	MBIN	NASDAQ
Series A Preferred Stock, without par value	MBINP	NASDAQ
Depositary Shares, each representing a 1/40th interest in a share of Series B Preferred Stock, without par value	MBINP	NASDAQ (Redeemed April 1, 2024)
	MBINO	NASDAQ
Depositary Shares, each representing a 1/40th interest in a share of Series C Preferred Stock, without par value	MBINN	NASDAQ
Depositary Shares, each representing a 1/40th interest in a share of Series D Preferred Stock, without par value	MBINN	NASDAQ
	MBINM	NASDAQ

As of November 1, 2023 May 1, 2024, the latest practicable date, 43,240,212 43,354,718 shares of the registrant's common stock, without par value, were issued and outstanding.

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Part I – Financial Information

Item 1. Financial Statements

Merchants Bancorp

Condensed Consolidated Balance Sheets

September 30, 2023 March 31, 2024 (Unaudited) and December 31, 2022 December 31, 2023

(In thousands, except share data)

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023*
Assets				
Cash and due from banks	$ 10,633	$ 22,170	$ 17,924	$ 15,592
Interest-earning demand accounts	396,605	203,994	490,831	568,830
Cash and cash equivalents	407,238	226,164	508,755	584,422
Securities purchased under agreements to resell	3,385	3,464	3,329	3,349
Mortgage loans in process of securitization	476,047	154,194	142,629	110,599
Securities available for sale	624,586	323,337		
Securities held to maturity ($1,010,745 and $1,118,966 at fair value, respectively)	1,012,801	1,119,078		
Securities available for sale ($700,640 and $722,497 utilizing fair value option, respectively)			1,061,288	1,113,687
Securities held to maturity ($1,176,178 and $1,203,535 at fair value, respectively)			1,175,167	1,204,217
Federal Home Loan Bank (FHLB) stock	48,219	39,130	64,215	48,578
Loans held for sale (includes $90,875 and $82,192 at fair value, respectively)	3,477,036	2,910,576		
Loans receivable, net of allowance for credit losses on loans of $66,864 and $44,014, respectively	9,910,681	7,426,858		
Loans held for sale (includes $84,513 and $86,663 at fair value, respectively)			3,503,131	3,144,756
Loans receivable, net of allowance for credit losses on loans of $75,712 and $71,752, respectively			10,690,513	10,127,801

Premises and equipment, net	36,730	35,438	42,450	42,342
Servicing rights	162,141	146,248	172,200	158,457
Interest receivable	78,401	56,262	90,303	91,346
Goodwill	15,845	15,845	8,014	15,845
Intangible assets, net	831	1,186	149	742
Other assets and receivables	241,295	157,447	360,433	306,375
Total assets	$ 16,495,236	$ 12,615,227	$17,822,576	$ 16,952,516
Liabilities and Shareholders' Equity				
Liabilities				
Deposits				
Noninterest-bearing	$ 287,846	$ 326,875	$ 319,872	$ 520,070
Interest-bearing	12,719,492	9,744,470	13,655,789	13,541,390
Total deposits	13,007,338	10,071,345	13,975,661	14,061,460
Borrowings	1,654,075	930,392	1,835,985	964,127
Deferred and current tax liabilities, net	18,006	19,613	43,935	19,923
Other liabilities	183,102	134,138	190,527	205,922
Total liabilities	14,862,521	11,155,488	16,046,108	15,251,432
Commitments and Contingencies				
Shareholders' Equity				
Common stock, without par value				
Authorized - 75,000,000 shares				
Issued and outstanding - 43,240,212 shares at September 30, 2023 and 43,113,127 shares at December 31, 2022	139,609	137,781		
Issued and outstanding - 43,354,718 shares at March 31, 2024 and 43,242,928 shares at December 31, 2023			139,950	140,365
Preferred stock, without par value - 5,000,000 total shares authorized				
7% Series A Preferred stock - $25 per share liquidation preference				
Authorized - 3,500,000 shares				
Issued and outstanding - 2,081,800 shares	50,221	50,221	50,221	50,221
6% Series B Preferred stock - $1,000 per share liquidation preference				
Authorized - 125,000 shares				
Issued and outstanding - 125,000 shares (equivalent to 5,000,000 depositary shares)	120,844	120,844	120,844	120,844
6% Series C Preferred stock - $1,000 per share liquidation preference				
Authorized - 200,000 shares				
Issued and outstanding - 196,181 shares (equivalent to 7,847,233 depositary shares)	191,084	191,084	191,084	191,084
8.25% Series D Preferred stock - $1,000 per share liquidation preference				
Authorized - 300,000 shares				
Issued and outstanding - 142,500 shares (equivalent to 5,700,000 depositary shares)	137,459	137,459	137,459	137,459
Retained earnings	998,252	832,871	1,138,083	1,063,599
Accumulated other comprehensive loss	(4,754)	(10,521)	(1,173)	(2,488)
Total shareholders' equity	1,632,715	1,459,739	1,776,468	1,701,084
Total liabilities and shareholders' equity	$ 16,495,236	$ 12,615,227	$17,822,576	$ 16,952,516

* Derived from audited consolidated financial statements.

See notes to condensed consolidated financial statements.

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Merchants Bancorp

Condensed Consolidated Statements of Income (Unaudited)

For the Three and Nine Months Ended September 30, 2023 March 31, 2024 and 2022 2023

(In thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Interest Income				
Loans	$ 266,561	$ 129,101	$ 684,743	$ 287,291
Mortgage loans in process of securitization	2,583	2,162	7,358	5,856
Investment securities:				
Available for sale - taxable	6,182	485	14,012	2,103
Held to maturity	17,427	970	50,492	970
Federal Home Loan Bank stock	572	379	1,470	932
Other	3,351	1,015	7,964	2,242
Total interest income	296,676	134,112	766,039	299,394
Interest Expense				
Deposits	162,906	45,002	405,149	68,583
Borrowed funds	16,334	3,725	37,144	7,670
Total interest expense	179,240	48,727	442,293	76,253
Net Interest Income	117,436	85,385	323,746	223,141
Provision for credit losses	4,014	2,225	33,484	10,888
Net Interest Income After Provision for Credit Losses	113,422	83,160	290,262	212,253
Noninterest Income				
Gain on sale of loans	10,758	13,354	28,841	52,883
Loan servicing fees, net	17,384	8,169	28,360	27,507
Mortgage warehouse fees	1,858	1,105	5,751	4,313
Syndication and asset management fees	2,368	3,073	7,476	5,286
Other income	3,700	3,485	9,786	12,965
Total noninterest income	36,068	29,186	80,214	102,954
Noninterest Expense				
Salaries and employee benefits	27,052	23,027	74,922	66,795
Loan expenses	1,038	1,226	2,749	3,621
Occupancy and equipment	2,196	1,967	6,884	5,792
Professional fees	2,555	2,429	8,547	5,326
Deposit insurance expense	3,568	755	9,552	2,184
Technology expense	1,609	1,325	4,757	3,865
Other expense	4,912	4,222	14,611	11,358
Total noninterest expense	42,930	34,951	122,022	98,941
Income Before Income Taxes	106,560	77,395	248,454	216,266
Provision for income taxes	25,056	18,907	46,693	53,701
Net Income	$ 81,504	$ 58,488	$ 201,761	$ 162,565
Dividends on preferred stock	(8,668)	(5,729)	(26,003)	(17,186)
Net Income Allocated to Common Shareholders	72,836	52,759	175,758	145,379
Basic Earnings Per Share	$ 1.68	$ 1.22	$ 4.07	$ 3.37
Diluted Earnings Per Share	$ 1.68	$ 1.22	$ 4.06	$ 3.36
Weighted-Average Shares Outstanding				
Basic	43,238,724	43,107,975	43,218,125	43,182,380
Diluted	43,351,208	43,258,925	43,317,343	43,331,148

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Interest Income		
Loans	$ 271,998	$ 189,450
Mortgage loans in process of securitization	1,720	1,648
Investment securities:		
Available for sale	14,388	2,266
Held to maturity	20,522	15,754
Federal Home Loan Bank stock	844	427
Other	4,701	1,749
Total interest income	314,173	211,294
Interest Expense		
Deposits	171,022	104,442
Borrowed funds	16,095	6,159
Total interest expense	187,117	110,601
Net Interest Income	127,056	100,693
Provision for credit losses	4,726	6,867
Net Interest Income After Provision for Credit Losses	122,330	93,826
Noninterest Income		
Gain on sale of loans	9,356	6,733
Loan servicing fees, net	19,402	2,360
Mortgage warehouse fees	982	1,028
Loss on sale of investments available for sale (includes $(108) and $0, respectively, related to accumulated other comprehensive loss reclassifications)	(108)	—
Syndication and asset management fees	5,303	1,212
Other income	5,939	2,931
Total noninterest income	40,874	14,264
Noninterest Expense		
Salaries and employee benefits	29,596	22,146
Loan expenses	956	804
Occupancy and equipment	2,237	2,232
Professional fees	4,099	2,269
Deposit insurance expense	5,125	2,178
Technology expense	1,854	1,577
Other expense	5,045	3,566
Total noninterest expense	48,912	34,772
Income Before Income Taxes	114,292	73,318
Provision for income taxes (includes $26 and $0, respectively, related to income tax benefit for reclassification items)	27,238	18,363
Net Income	$ 87,054	$ 54,955
Dividends on preferred stock	(8,667)	(8,667)
Net Income Allocated to Common Shareholders	78,387	46,288
Basic Earnings Per Share	$ 1.81	$ 1.07

Diluted Earnings Per Share	$ 1.80	$ 1.07
Weighted-Average Shares Outstanding		
Basic	43,305,985	43,179,604
Diluted	43,466,647	43,290,779

See notes to condensed consolidated financial statements. statements.

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Merchants Bancorp

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

For the Three and Nine Months Ended September 30, 2023 March 31, 2024 and 2022 2023

(In thousands)

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net Income	$ 81,504	$ 58,488	$ 201,761	$ 162,565
Other Comprehensive Income (Loss):				
Net change in unrealized gain/(losses) on investment securities available for sale, net of tax (expense)/benefits of $(714), $1,210, $(2,050) and $3,413, respectively	2,282	(3,616)	5,767	(10,232)
Other comprehensive income (loss) for the period	2,282	(3,616)	5,767	(10,232)
Comprehensive Income	$ 83,786	$ 54,872	$ 207,528	$ 152,333

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Net Income	$ 87,054	$ 54,955
Other Comprehensive Income:		
Net unrealized gain on investment securities available for sale, net of tax expense of $(384) and $(934), respectively	1,233	2,792
Add: Reclassification adjustment for losses included in net income, net of tax benefit of $26 and $0, respectively	82	—
Other comprehensive income for the period	1,315	2,792
Comprehensive Income	$ 88,369	$ 57,747

See notes to condensed consolidated financial statements statements..

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Merchants Bancorp

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

For the Three and Nine Months Ended September 30, 2023 March 31, 2024 and 2022 2023

(In thousands, except share data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock								
Balance beginning of period	43,237,300	$ 138,853	43,106,505	$ 136,671	43,113,127	$ 137,781	43,180,079	$ 137,565
Repurchase of common stock	-	-	-	-	-	-	(165,037)	(1,761)
Cash paid in lieu of fractional shares for stock split	-	-	-	-	-	-	(29)	(1)
Distribution to employee stock ownership plan	-	-	-	-	33,293	810	20,709	653
Shares issued for stock compensation plans, net of taxes withheld to satisfy tax obligations	2,912	756	3,073	555	93,792	1,018	73,856	770
Balance end of period	43,240,212	139,609	43,109,578	137,226	43,240,212	139,609	43,109,578	137,226
7% Series A Preferred Stock								
Balance at beginning and end of period	2,081,800	50,221	2,081,800	50,221	2,081,800	50,221	2,081,800	50,221
6% Series B Preferred Stock								
Balance at beginning and end of period	125,000	120,844	125,000	120,844	125,000	120,844	125,000	120,844
6% Series C Preferred Stock								
Balance at beginning and end of period	196,181	191,084	196,181	191,084	196,181	191,084	196,181	191,084
8.25% Series D Preferred Stock								
Balance beginning of period	142,500	137,459	-	-	142,500	137,459	-	-
Issuance of 8.25% Series D preferred stock, net of $5.1 million in offering expenses	-	-	142,500	137,371	-	-	142,500	137,371
Balance at beginning and end of period	142,500	137,459	142,500	137,371	142,500	137,459	142,500	137,371
Retained Earnings								
Balance beginning of period		928,875		737,789		832,871		657,149
Net income		81,504		58,488		201,761		162,565
Impact from adoption of ASU 2016-13 (Credit Losses)		-		-		-		(3,648)
Impact from adoption of ASU 2016-02 (Leases)		-		-		-		(110)
Dividends on 7% Series A preferred stock, $1.75 per share, annually		(911)		(911)		(2,732)		(2,732)
Dividends on 6% Series B preferred stock, $60.00 per share, annually		(1,875)		(1,875)		(5,625)		(5,625)
Dividends on 6% Series C preferred stock, $60.00 per share, annually		(2,943)		(2,943)		(8,829)		(8,829)
Dividends on 8.25% Series D preferred stock, $82.50 per share, annually		(2,939)		-		(8,817)		-

Dividends on common stock, $0.32 per share, annually in 2023 and $0.28 per share, annually in 2022	(3,459)	(3,018)	(10,377)	(9,066)
Repurchase of common stock	-	-	-	(2,174)
Balance end of period	998,252	787,530	998,252	787,530
Accumulated Other Comprehensive Loss				
Balance beginning of period	(7,036)	(8,070)	(10,521)	(1,454)
Other comprehensive income (loss)	2,282	(3,616)	5,767	(10,232)
Balance end of period	(4,754)	(11,686)	(4,754)	(11,686)
Total shareholders' equity	$ 1,632,715	$ 1,412,590	$ 1,632,715	$ 1,412,590

	Three Months Ended March 31,			
	2024		2023	
	Shares	Amount	Shares	Amount
Common Stock				
Balance beginning of period	43,242,928	$ 140,365	43,113,127	$ 137,781
Distribution to employee stock ownership plan	23,414	997	33,293	810
Shares issued for stock compensation plans, net of taxes withheld to satisfy tax obligations	88,376	(1,412)	87,198	(486)
Balance end of period	43,354,718	139,950	43,233,618	138,105
7% Series A Preferred Stock				
Balance at beginning and end of period	2,081,800	50,221	2,081,800	50,221
(All shares were redeemed as of April 1, 2024)				
6% Series B Preferred Stock				
Balance at beginning and end of period	125,000	120,844	125,000	120,844
6% Series C Preferred Stock				
Balance at beginning and end of period	196,181	191,084	196,181	191,084
8.25% Series D Preferred Stock				
Balance at beginning and end of period	142,500	137,459	142,500	137,459
Retained Earnings				
Balance beginning of period		1,063,599		832,871
Net income		87,054		54,955
Dividends on 7% Series A preferred stock, $1.75 per share, annually		(910)		(910)
Dividends on 6% Series B preferred stock, $60.00 per share, annually		(1,875)		(1,875)
Dividends on 6% Series C preferred stock, $60.00 per share, annually		(2,943)		(2,943)
Dividends on 8.25% Series D preferred stock, $82.50 per share, annually		(2,939)		(2,939)
Dividends on common stock, $0.36 per share, annually in 2024 and $0.32 per share, annually in 2023		(3,903)		(3,459)
Balance end of period		1,138,083		875,700
Accumulated Other Comprehensive Loss				
Balance beginning of period		(2,488)		(10,521)
Other comprehensive income		1,315		2,792

Balance end of period	(1,173)	(7,729)
Total shareholders' equity	$ 1,776,468	$ 1,505,684

See notes to condensed consolidated financial statements. statements.

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Merchants Bancorp

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine Three Months Ended September 30, 2023 March 31, 2024 and 2022 2023

(In thousands)

	Nine Months Ended September 30,	
	2023	**2022**
Operating activities:		
Net income	$ 201,761	$ 162,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,119	1,832
Provision for credit losses	33,484	10,888
Gain on sale of loans	(28,841)	(52,883)
Proceeds from sales of loans	15,552,382	21,488,416
Loans and participations originated and purchased for sale	(16,455,580)	(20,209,971)
Purchases of low-income housing tax credits for sale	(44,106)	(22,122)
Proceeds from sale of low-income housing tax credits	23,081	8,556
Change in servicing rights for paydowns and fair value adjustments	(6,729)	(11,974)
Net change in:		
Mortgage loans in process of securitization	(321,853)	431,791
Other assets and receivables	(13,383)	(20,958)
Other liabilities	(9,986)	50,630
Other	(3,123)	(2,854)
Net cash (used in) provided by operating activities	(1,070,774)	1,833,916
Investing activities:		
Net change in securities purchased under agreements to resell	79	2,391
Purchases of securities available for sale	(631,676)	(50,274)
Purchases of securities held to maturity	(9,786)	(1,005,487)
Proceeds from the sale of securities available for sale	1,516	11,379
Proceeds from calls, maturities and paydowns of securities available for sale	339,995	12,755
Proceeds from calls, maturities and paydowns of securities held to maturity	116,062	—
Purchases of loans	(329,014)	(289,030)
Net change in loans receivable	(1,829,247)	(1,675,505)
Purchase of FHLB stock	(9,089)	(10,326)

Proceeds from sale of FHLB stock	—	784
Purchases of premises and equipment	(3,459)	(6,178)
Purchase of servicing rights	—	(2,057)
Purchase of limited partnership interests	(71,001)	(42,710)
Proceeds from sale of limited partnership interests	52,984	—
Other investing activities	1,591	4,314
Net cash used in investing activities	(2,371,045)	(3,049,944)
Financing activities:		
Net change in deposits	2,935,993	1,336,866
Proceeds from borrowings	69,132,347	44,950,000
Repayment of borrowings	(68,615,360)	(45,890,075)
Proceeds from notes payable	60,000	3,400
Proceeds from issuance of preferred stock	—	137,371
Proceeds from credit linked notes	153,546	—
Payment of credit linked notes	(7,253)	—
Repurchase of common stock	—	(3,935)
Dividends	(36,380)	(26,252)
Net cash provided by financing activities	3,622,893	507,375
Net Change in Cash and Cash Equivalents	181,074	(708,653)
Cash and Cash Equivalents, Beginning of Period	226,164	1,032,614
Cash and Cash Equivalents, End of Period	$ 407,238	$ 323,961
Supplemental Cash Flows Information:		
Interest paid	$ 415,920	$ 63,917
Income taxes paid, net of refunds	50,076	47,174
Transfer of loans from loans held for sale to loans receivable	377,460	—
Transfer of loans from loans receivable to loans held for sale	21,960	788,849

	Three Months Ended March 31,	
	2024	**2023**
Operating activities:		
Net income	$ 87,054	$ 54,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	725	686
Provision for credit losses	4,726	6,867
Loss on sale of securities	108	—
Gain on sale of loans	(9,356)	(6,733)
Proceeds from sales of loans	4,694,759	3,356,860
Loans and participations originated and purchased for sale	(5,078,607)	(3,674,484)
Proceeds from sale of low-income housing tax credits	25,861	8,670
Purchases of low-income housing tax credits for sale	(21,113)	(7,932)
Change in servicing rights for paydowns and fair value adjustments	(11,577)	4,554
Net change in:		
Mortgage loans in process of securitization	(32,030)	(42,880)
Other assets and receivables	(58,186)	(8,116)
Other liabilities	14,595	7,607
Other	(731)	(1,587)
Net cash used in operating activities	(383,772)	(301,533)
Investing activities:		
Net change in securities purchased under agreements to resell	20	26
Purchases of securities available for sale	(193,957)	(353,249)
Purchases of securities held to maturity	—	(1,540)
Proceeds from the sale of securities available for sale	9,983	—
Proceeds from calls, maturities and paydowns of securities available for sale	231,585	832

Proceeds from calls, maturities and paydowns of securities held to maturity	29,050	15,783
Purchases of loans	(27,727)	(98,791)
Net change in loans receivable	(552,568)	(678,522)
Proceeds from loans held for sale previously classified as loans receivable	1,600	—
Purchase of FHLB stock	(16,031)	—
Proceeds from sale of FHLB stock	394	—
Purchases of premises and equipment	(2,306)	(1,041)
Purchase of limited partnership interests	(4,157)	(4,580)
Net cash paid on sale of branches	(171,319)	—
Other investing activities	414	906
Net cash used in investing activities	(695,019)	(1,120,176)
Financing activities:		
Net change in deposits	144,036	1,273,886
Proceeds from borrowings	26,751,878	22,335,000
Repayment of borrowings	(25,871,971)	(22,185,180)
Proceeds from credit linked notes	—	153,546
Payment of credit linked notes	(8,249)	—
Dividends	(12,570)	(12,126)
Other financing activities	—	5
Net cash provided by financing activities	1,003,124	1,565,131
Net Change in Cash and Cash Equivalents	(75,667)	143,422
Cash and Cash Equivalents, Beginning of Period	584,422	226,164
Cash and Cash Equivalents, End of Period	$ 508,755	$ 369,586
Supplemental Cash Flows Information:		
Interest paid	$ 178,751	$ 101,381
Income taxes paid, net of refunds	783	966
Change in ROU assets due to lease renegotiation	(1,349)	—
Transfer of loans from loans held for sale to loans receivable	31,350	377,460
Transfer of loans from loans receivable to loans held for sale	1,600	—

See notes to condensed consolidated financial statements. statements.

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Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Merchants Bancorp, a registered bank holding company (the "Company") and its wholly owned subsidiaries, Merchants Bank of Indiana ("Merchants Bank"), Farmers-Merchants Bank of Illinois ("FMBI") (whose branches were sold to unaffiliated third parties and its remaining charter collapsed into Merchants Bank on January 26, 2024), and Merchants Asset Management, LLC ("MAM"). Merchants Bank's primary operating subsidiaries include Merchants Capital Corp.

(‘ (“MCC”), Merchants Capital Servicing, LLC (“MCS”), and Merchants Capital Investments, LLC (“MCI”). All direct and indirectly owned subsidiaries owned by Merchants Bancorp are collectively referred to as the “Company”.

The accompanying unaudited condensed consolidated balance sheet of the Company as of December 31, 2022 December 31, 2023, which has been derived from audited financial statements, and unaudited condensed consolidated financial statements of the Company as of September 30, 2023 March 31, 2024 and for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, were prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these unaudited condensed financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company as of and for the year ended December 31, 2022 December 31, 2023 in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described in the Notes to the Financial Statements contained in the Annual Report on Form 10-K.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair presentation of the unaudited financial statements have been included to present fairly the financial position as of September 30, 2023 March 31, 2024and the results of operations, cash flows, and changes in shareholders’ equity for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, and cash flows for the nine months ended September 30, 2023 and 2022. 2023. All interim amounts have not been audited and the results of operations for the three and nine months ended September 30, 2023 March 31, 2024, herein are not necessarily indicative of the results of operations to be expected for the entire year.

Sale of Farmers-Merchants Bank of Illinois branches

On September 7, 2023, the Company entered into an agreement with Bank of Pontiac to sell its Farmers-Merchants Bank of Illinois branch locations in Paxton, Melvin, and Piper City, Illinois, and into an agreement with CBI Bank & Trust, to sell its Farmers-Merchants Bank of Illinois branch located in Joy, Illinois.

This transaction enhances the Company’s ability to focus on its core business of single and multi-family mortgage lending and strategically aligns the branches with institutions that share a similar business model and allows them to provide additional products to their customers.

On January 26, 2024, the transaction was completed after having met customary closing conditions, including regulatory approval.

In addition to the branches, Bank of Pontiac acquired approximately $164.8 million in deposits and $19.2 million in loans, and CBI Bank & Trust acquired approximately $65.1 million in deposits and $28.6 million in loans.

Total assets and liabilities of approximately $60.8 million and $230.6 million, respectively, were sold. A net gain of $715,000 was recognized from the transactions, which includes a $10.1 million deposit premium and the extinguishment of $7.8 million in goodwill and $0.5 million in intangibles during the three months ended March 31, 2024.

Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Principles of Consolidation

The unaudited condensed consolidated financial statements as of and for the period ended September 30, 2023 March 31, 2024 and 2022 2023 include results from the Company, and its wholly owned subsidiaries, Merchants Bank, FMBI (until its branches were sold and its bank charter merged into Merchants Bank on January 26, 2024) and MAM. Also included are Merchants Bank's primary operating subsidiaries, MCC, MCS and MCI, as well as all direct and indirectly owned subsidiaries owned by Merchants Bancorp.

During 2022, Merchants Foundation, Inc., a nonprofit corporation, was incorporated and its results are consolidated with the Company's consolidated financial statements in all periods presented.

In addition, when the Company makes an equity investment in or has a relationship with an entity for which it holds a variable interest, it is evaluated for consolidation requirements under Accounting Standards Update of ("ASU") Topic 810. Accordingly, the entity is assessed for potential consolidation under the variable interest entity ("VIE") model and would only consolidate those entities for which it is a primary beneficiary. A primary beneficiary is defined as the party that has both the power to direct the activities that most significantly impact the entity, and an interest that could be significant to the entity. To determine if an interest could be significant to the entity, both qualitative and quantitative factors regarding the nature, size and form of the Company's our involvement with the entity are evaluated. Alternatively, under the voting interest model, it would only consolidate those entities for which it has a controlling interest.

In May 2023, the Company acquired a variable interest in an investment for which it is the primary beneficiary of, and its results have been consolidated since the date of acquisition. Additionally, the Company has certain variable interest investments that it was deemed not to be a primary beneficiary of as of September 30, 2023 March 31, 2024 and December 31, 2023. These VIEs are not consolidated and the equity or proportional method of accounting has been applied. The Company will analyze whether the primary beneficiary designation has changed through triggering events on a prospective basis. Changes in facts and circumstances occurring since the previous primary beneficiary determination will be considered as part of this ongoing assessment. See *Note 5: Variable Interest Entities (VIEs)* for additional information about VIEs.

All significant intercompany accounts and transactions have been eliminated in consolidation.

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Sale of Farmers-Merchants Bank of Illinois branches

On September 7, 2023, the Company entered into an agreement with Bank of Pontiac to sell its Farmers-Merchants Bank of Illinois branch locations in Paxton, Melvin, and Piper City, Illinois, and into an agreement with CBI Bank & Trust, to sell its Farmers-Merchants Bank of Illinois branch located in Joy, Illinois.

In addition to the branches, Bank of Pontiac will acquire approximately $157 million in deposits and $22 million in loans, and CBI Bank & Trust will acquire approximately $62 million in deposits and $27 million in loans.

This transaction enhances the Company's ability to focus on its core business of single and multi-family mortgage lending and strategically aligns the branches with institutions that share a similar business model and allows them to provide additional products to their customers.

The acquisitions are subject to customary closing conditions, including regulatory approvals.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on loans, servicing rights and fair values of servicing rights and financial instruments.

Significant Accounting Policies

The significant accounting policies followed by the Company for interim financial reporting are consistent with the accounting policies followed for annual financial reporting.

On January 1, 2022, the Company adopted FASB Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL"). The Company revised certain accounting policies and implemented certain accounting policy elections, related to the adoption of CECL, which are described below. All adjustments, which are of a normal recurring nature and are, in the opinion of management, necessary for a fair statement of the results for the periods reported, have been included in the accompanying Condensed Consolidated Financial Statements.

CECL replaces the previous "allowance for loan and lease losses" model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio, with an "expected loss" model for measuring credit losses, which encompasses allowances for losses expected to be incurred over the life of the included assets. The new CECL model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance sheet credit exposures (“OBCEs”) based on historical experiences, current conditions, and reasonable and supportable forecasts. CECL also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization's portfolio. In addition, CECL includes certain changes to the accounting for investment securities available for sale depending on whether management intends to sell the securities or believes that it is more likely than not they will be required to sell.

As of adoption date on January 1, 2022, the Company recorded a $3.6 million decrease, net of taxes, to retained earnings for the cumulative effect of adopting CECL. The transition adjustment included a $0.3 million increase to retained earnings related to allowance for credit losses on loans (“ACL-Loans”) and a $5.2 million decrease to retained earnings related to allowance for OBCEs (“ACL-OBCEs”).

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ACL-Loans - the ACL-Loans is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on loans over the contractual term. Loans are charged-off against the allowance when the uncollectibility of the loan is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Adjustments to the ACL-Loans are reported in the income statement as a provision for credit loss. Further information regarding the policies and methodology used to estimate the ACL-Loans is detailed in *Note 4: Loans and Allowance for credit losses on loans* of these Notes to Consolidated Condensed Financial Statements.

ACL-OBCEs – the ACL–OBCEs is a liability account representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. OBCEs primarily consist of amounts available under outstanding lines of credit. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management’s best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. The ACL–OBCEs is adjusted through the income statement as a component of provision for credit loss.

Restricted Cash

Included in cash equivalents is an account restricted as collateral for the potential risk of loss on senior credit linked notes issued by the Company in March 2023. Company. The balance of the notes as of March 31, 2024 was $115.6 million. As of September 30, 2023 March 31, 2024, there was $52.2 million $39.2 million in restricted cash. Also see*Note 11: Borrowings.*

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Merchants Bancorp

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 2: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities available for sale and held to maturity were as follows:

	March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 109,146	$ 15	$ 58	$ 109,103
Federal agencies	240,000	—	1,499	238,501
Mortgage-backed - Government Agency ("Agency") (2) - multi-family	13,044	—	—	13,044
Mortgage-backed - Non-Agency residential - fair value option (1)	472,192	—	—	472,192
Mortgage-backed - Agency - residential - fair value option (1)	228,448	—	—	228,448
Total securities available for sale	$ 1,062,830	$ 15	$ 1,557	$ 1,061,288
Securities held to maturity:				
Mortgage-backed - Non-Agency - multi-family	$ 710,024	$ —	$ 419	$ 709,605
Mortgage-backed - Non-Agency - residential	453,167	2,385	87	455,465
Mortgage-backed - Agency	11,976	—	868	11,108
Total securities held to maturity	$ 1,175,167	$ 2,385	$ 1,374	$ 1,176,178

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 138,520	$ 33	$ 667	$ 137,886
Federal agencies	229,997	—	5,599	224,398
Mortgage-backed - Government-sponsored entity (GSE)	262,302	6	6	262,302
Total securities available for sale	$ 630,819	$ 39	$ 6,272	$ 624,586
Securities held to maturity:				
Mortgage-backed - Non-GSE multi-family	$ 794,575	$ —	$ 111	$ 794,464
Mortgage-backed - Non-GSE residential	208,475	—	1,059	207,416
Mortgage-backed - Government - sponsored entity (GSE)	9,751	—	886	8,865
Total securities held to maturity	$ 1,012,801	$ —	$ 2,056	$ 1,010,745

(1) For fair value option securities, the amortized cost reflects the carrying value, which is also equal to the fair value.

(2) Agency includes government sponsored agencies, such as Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”), and Government National Mortgage Association (“Ginnie Mae”).

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 129,261	$ 45	$ 338	$ 128,968
Federal agencies	250,731	—	2,976	247,755
Mortgage-backed - Government Agency ("Agency") (2) - multi-family	14,465	5	3	14,467
Mortgage-backed - Non-Agency residential - fair value option (1)	485,500	—	—	485,500
Mortgage-backed - Agency - residential - fair value option (1)	236,997	—	—	236,997
Total securities available for sale	$ 1,116,954	$ 50	$ 3,317	$ 1,113,687
Securities held to maturity:				
Mortgage-backed - Non-Agency - multi-family	$ 719,662	$ —	$ 415	$ 719,247

Mortgage-backed - Non-Agency - residential	472,539	973	418	473,094
Mortgage-backed - Agency	12,016	—	822	11,194
Total securities held to maturity	$ 1,204,217	$ 973	$ 1,655	$ 1,203,535

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 37,234	$ 1	$ 955	$ 36,280
Federal agencies	284,986	—	13,096	271,890
Mortgage-backed - Government-sponsored entity (GSE)	15,167	7	7	15,167
Total securities available for sale	$ 337,387	$ 8	$ 14,058	$ 323,337
Securities held to maturity:				
Mortgage-backed - Non-GSE multi-family	$ 871,772	$ 12	$ —	$ 871,784
Mortgage-backed - Non-GSE residential	247,306	—	124	247,182
Total securities held to maturity	$ 1,119,078	$ 12	$ 124	$ 1,118,966

(1)

At September 30, 2023 and December 31, 2022, GSE mortgage-backed securities included in the tables above are primarily backed by multi-family and single-

(2) Agency includes government sponsored agencies, such as Fannie Mae, Freddie Mac, and Ginnie Mae.

Accrued interest on securities available for sale totaled $2.0 million $5.1 million at September 30, 2023 March 31, 2024 and $0.5 million $6.7 million at December 31, 2022 December 31, 2023, respectively, and is excluded from the estimate of credit losses.

Accrued interest on securities held to maturity totaled $4.4 million at September 30, 2023 and $4.3 million at December 31, 2022, respectively, and is excluded from the estimate of credit losses.

The amortized cost and fair value of available for sale securities at September 30, 2023 and December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may

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(Unaudited)

Accrued interest on securities held to maturity totaled $5.6 million at March 31, 2024 and $5.8 million at December 31, 2023, and is excluded from the estimate of credit losses.

The amortized cost and fair value of available for sale securities at March 31, 2024 and December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:		(In thousands)						
Securities available for sale:								
Securities available for sale:								
Securities available for sale:								
Securities available for sale:								
Securities available for sale:								
Securities available for sale:								
Securities available for sale:								
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Securities available for sale:								
Securities available for sale:								
Securities available for sale:								
Securities available for sale:						(In thousands)		
Within one year	$ 346,753	$ 340,839	$ 118,984	$ 115,386	$ 209,146	$ 207,796	$ 308,474	$ 305,406
After one through five years	21,764	21,445	203,236	192,784	140,000	139,808	71,518	71,317
	368,517	362,284	322,220	308,170	349,146	347,604	379,992	376,723
Mortgage-backed - Government-sponsored entity (GSE)	262,302	262,302	15,167	15,167				
Mortgage-backed - Agency					13,044	13,044	14,465	14,467
Mortgage-backed - Non-Agency residential - fair value option					472,192	472,192	485,500	485,500
Mortgage-backed - Agency - residential - fair value option					228,448	228,448	236,997	236,997
	$ 630,819	$ 624,586	$ 337,387	$ 323,337	$1,062,830	$1,061,288	$1,116,954	$1,113,687

Securities held to maturity:								
Mortgage-backed - Non-GSE multi-family	$ 794,575	$ 794,464	$ 871,772	$ 871,784				
Mortgage-backed - Non-GSE residential	208,475	207,416	247,306	247,182				
Mortgage-backed - Government - sponsored entity (GSE)	9,751	8,865	—	—				
Mortgage-backed - Non-Agency - multi-family					$ 710,024	$ 709,605	$ 719,662	$ 719,247
Mortgage-backed - Non-Agency - residential					453,167	455,465	472,539	473,094
Mortgage-backed - Agency					11,976	11,108	12,016	11,194
	$ 1,012,801	$ 1,010,745	$ 1,119,078	$ 1,118,966	$1,175,167	$1,176,178	$1,204,217	$1,203,535

During the three and nine months ended September 30, 2023 March 31, 2024, proceeds the Company recognized a net loss of $108,000 from sales of securities available for sale were $1.4 million sale. The $108,000 net loss consisted of $10,000 in gains and $1.5 million, respectively, and the net gain was inconsequential. $118,000 of losses. During the three and nine months ended September 30, 2022 one of the mortgage-backed non-GSE multi-family March 31, 2023, no securities available for sale was sold for $11.4 million, resulting in no gain or loss. were sold.

The following tables show the Company's gross unrealized losses and fair value of the Company's investment securities with unrealized losses, for which an ACL allowance for credit losses ("ACL") has not been recorded, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	September 30, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Securities available for sale:						
Treasury notes	$ 5,312	$ 52	$ 32,773	$ 615	$ 38,085	$ 667
Federal agencies	14,878	122	209,520	5,477	224,398	5,599
Mortgage-backed - Government-sponsored entity (GSE)	384	1	211	5	595	6
	$ 20,574	$ 175	$ 242,504	$ 6,097	$ 263,078	$ 6,272

	March 31, 2024					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					

Securities available for sale:						
Treasury notes	$ 3,092	$ 1	$ 26,938	$ 57	$ 30,030	$ 58
Federal agencies	139,808	192	98,693	1,307	238,501	1,499
	$ 142,900	$ 193	$ 125,631	$ 1,364	$ 268,531	$ 1,557

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	December 31, 2022						December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)						(In thousands)					
Securities available for sale:												
Treasury notes	$29,560	$ 762	$ 5,798	$ 193	$ 35,358	$ 955	$ 3,052	$ 6	$ 32,080	$ 332	$ 35,132	$ 338

Federal agencies	19,276	724	252,613	12,372	271,889	13,096	60,541	189	167,213	2,787	227,754	2,976
Mortgage-backed - Government-sponsored entity (GSE)	709	7	—	—	709	7						
Mortgage-backed - Agency							364	1	186	2	550	3
	$49,545	$ 1,493	$258,411	$12,565	$307,956	$14,058	$63,957	$ 196	$199,479	$ 3,121	$263,436	$ 3,317

Allowance for Credit Losses (ACL)

For available for sale securities with an unrealized loss position, the Company evaluates the securities to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or non-credit noncredit related factors. Any impairment that is not credit-related is recognized in accumulated other comprehensive income (loss), net of tax. Credit-related impairment is recognized as an ACL for available for sale securities on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Accrued interest receivable is excluded from the estimate of credit losses. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Company expects, or is required, to sell an impaired available for sale security before recovering its amortized cost basis, the entire impairment amount would be recognized in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis is adjusted to fair value, there is no ACL in this situation.

In evaluating available for sale securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors. Unrealized losses on the Company's investment securities portfolio have not been recognized as an expense because the securities are of high credit quality, and the decline in fair values is attributable to changes in the prevailing interest rate environment since the purchase date. Fair value is expected to recover as securities reach maturity and/or the interest rate environment returns to conditions similar to when these securities were purchased. There were no credit related factors underlying unrealized losses on available for sale debt securities at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

Securities held to maturity are comprised of non-GSE non-agency mortgage-backed securities secured by multi-family or single-family properties, and GSE agency mortgage-backed securities secured by multi-family properties. The GSE security is a Government National Mortgage Association ("agency securities are Ginnie Mae") Mae mortgage-backed securities and backed by the full faith and credit of the U.S. government. Accordingly, no allowance for credit losses has been recorded for these securities. The non-GSE non-agency securities were purchased under securitization arrangements where a credit loss component was purchased by third party investors. These securities were evaluated for credit losses over and above the credit loss percentage sold under the arrangements, and the Company does not anticipate any such losses. Additional qualitative factors are evaluated, including the timeliness of principal and interest payments under the contractual terms of the securities. Accordingly, no allowance for credit losses has been recorded for the non-GSE non-agency securities.

Note 3: Mortgage Loans in Process of Securitization

Mortgage loans in process of securitization are recorded at fair value with changes in fair value recorded in earnings. These include multi-family rental real estate loan originations to be sold as Ginnie Mae mortgage-backed securities, and Federal National Mortgage Association ("Fannie Mae") Mae and Federal Home Loan Mortgage Corporation ("Freddie Mac") Mac participation certificates, all of which are pending settlement with settlements under firm

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investor commitments to purchase the securities, typically occurring within 30 days. A positive The fair market value adjustment increases recorded in earnings for mortgage loans in process of securitization totaled $1.9 0.7 million and a negative fair market value adjustment of $3.7 million was recorded in earnings $4.0 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. A positive fair market value adjustment of $2.2 million and $1.1 million was recorded in earnings for the nine months ended September 30, 2023 and 2022, respectively.

Note 4: Loans and Allowance for Credit Losses on Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the ACL-Loans, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans at amortized cost, interest income is accrued based on the unpaid principal balance.

The Company has made a policy election to exclude accrued interest from the amortized cost basis of loans and reports accrued interest separately from the related loan balance in the unaudited condensed consolidated balance sheets. Accrued interest on loans totaled $53.8 million $60.2 million and $35.0 million $60.4 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

The Company also elected not to measure an allowance for credit losses for accrued interest receivables. The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off charged off is reversed against interest income. The interest collected on these loans is applied to the principal balance until the loan can be returned to an 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.

For all loan portfolio segments, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectable based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations.

When cash payments for accrued interest are received on nonaccrual loans in each loan class, the Company records a reduction in principle principal on the balance of the loan. For loan modifications, interest income is recognized on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms.

The Company offers warehouse lines of credit repurchase agreements to fund mortgage loans held for sale from closing until sale to an investor. Under a warehousing arrangement the Company funds a mortgage loan as through secured financing. The warehousing arrangement is secured by the underlying mortgages and a combination of deposits, personal guarantees and advance rates. The Company typically holds the collateral until it is sent under a bailee arrangement instructing the investor to send proceeds to the Company. Typical investors are large financial institutions or government agencies. Interest earned from the time of funding to the time of sale is recognized as interest income as accrued. Warehouse fees are accrued as noninterest income.

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Loan Portfolio Summary

Loans receivable at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 include:

	September 30, 2023	December 31, 2022
	(In thousands)	
Mortgage warehouse lines of credit	$ 1,022,692	$ 464,785
Residential real estate(1)	1,358,908	1,178,401
Multi-family financing	3,709,320	3,135,535
Healthcare financing	2,218,559	1,604,341
Commercial and commercial real estate(2)(3)	1,560,031	978,661
Agricultural production and real estate	96,490	95,651
Consumer and margin loans	11,545	13,498
	9,977,545	7,470,872
Less:		
ACL-Loans	66,864	44,014
Loans Receivable	$ 9,910,681	$ 7,426,858

	March 31,	December 31,

	2024	2023
	(In thousands)	
Mortgage warehouse repurchase agreements	$ 1,142,994	$ 752,468
Residential real estate(1)	1,321,300	1,324,305
Multi-family financing	4,096,606	4,006,160
Healthcare financing	2,464,685	2,356,689
Commercial and commercial real estate(2)(3)	1,666,751	1,643,081
Agricultural production and real estate	65,977	103,150
Consumer and margin loans	7,912	13,700
	10,766,225	10,199,553
Less:		
ACL-Loans	75,712	71,752
Loans Receivable	$ 10,690,513	$ 10,127,801

(1) Includes $1.2 billion and $1.1 billion $1.2 billion of All-in-One© All-in-One© first-lien home equity lines of credit at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

(2) Includes $1.0 billion $1.1 billion and $497.0 million $1.1 billion of revolving lines of credit collateralized primarily by single-family mortgage servicing rights as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

(3) Includes only $8.1 million $6.8 million and $12.8 million $8.4 million of non-owner occupied commercial real estate as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Mortgage Warehouse Lines of Credit Repurchase Agreements (MTG WHLOC) WHRA): Under its warehouse program, the Company provides warehouse financing arrangements to approved mortgage companies for the their origination and sale of residential mortgage loans and to a lesser extent multi-family loans. Agency eligible, governmental and jumbo residential mortgage loans that are Loans secured by mortgages placed on existing one-to-four family dwellings may be originated or purchased and placed on through each mortgage warehouse line. facility.

As a secured repurchase agreement, collateral pledged to the Company secures each individual mortgage until the lender mortgage company sells the loan in the secondary market. A traditional secured warehouse line of credit facility typically carries a base interest rate of the Federal Reserve's Secured Overnight Financing Rate ("SOFR"), or mortgage note rate and a margin.

Risk is evident if there is a change in the fair value of mortgage loans originated by mortgage bankers companies in warehouse, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit. facility. However, the warehouse customers are required to hedge the change in value of these loans to mitigate the risk, typically through forward sales contracts.

Residential Real Estate Loans (RES RE): Real estate loans are secured by owner-occupied 1-4 one-to-four family residences. Repayment of residential real estate loans is primarily dependent on the personal income and credit rating of the borrowers. First-lien HELOC mortgages included in this segment typically carried a base rate of 30-day LIBOR, plus a margin. With the sunset of LIBOR, loans have been transitioned to the One-Year Constant Maturity Treasury ("CMT"), plus a margin.

margin. With the sunset of LIBOR, loans have been transitioned to the One-Year Constant Maturity Treasury ("CMT"), plus a margin.

Multi-Family Financing (MF FIN): The Company engages specializes in originating multi-family financing including construction loans, specializing in originating and servicing that can be market rate or affordable. The portfolio includes loans for multi-family rental properties. In addition, the Company originates loans construction, acquisition, refinance, or permanent financing. Loans are typically secured by an real estate mortgages, assignment of federal income tax credits by partnerships invested Low-Income Housing Tax Credits ("LIHTC"), and/or equity interest in multi-family real estate projects. Construction and land the underlying properties. All loans are generally assessed and reviewed at a minimum based upon estimates on borrower strength/experience, historical property performance, market trends, projected financial performance with regards to intended strategy, and source of costs repayment. Independent third-party reports are used to ensure legal conformity and estimated value support valuations of the completed project assets. Exit strategies and include independent appraisal reviews sources of repayment are provided through the secondary market via governmental programs, strategic refinances, LIHTC equity installments, and a financial analysis of cashflow from the developers and property owners. Sources of repayment properties. Repayment of these loans are dependent depends on the cash flow successful operation of the a business or property and may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent agency-eligible financing is obtained. borrower's cash flows. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economy in the Company's related market area. Repayment of these These loans depends on the successful operation of a business or property are well-collateralized and the borrower's cash flows. underwritten to agency guidelines. Loans included in this segment typically carry a base rate of 30-day SOFR, that adjusts on a monthly basis, and a margin. The Company strategically focuses on loan classes that are government backed or can be sold in the secondary market.

Healthcare Financing (HC FIN): The healthcare financing portfolio includes customized loan products for independent living, assisted living, memory care and skilled nursing projects. A variety of loan products are available to accommodate rehabilitation, acquisition, and refinancing of healthcare properties. Credit risk in these loans are primarily driven by local demographics and the expertise of the operators of the facilities. Repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent agency-eligible financing is obtained, as well as successful operation of a business or property and the borrower's cash flows. These loans are well-collateralized and underwritten to agency guidelines. Loans included in this segment typically carry a base rate of 30-day SOFR, that adjusts on a monthly basis, and a margin. The Company strategically focuses on loan classes that are government backed or can be sold in the secondary market.

Commercial Lending and Commercial Real Estate Loans (CML & CRE): The commercial lending and commercial real estate portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions, as well as loans to commercial customers to finance land and improvements. It also includes lines of credit collateralized by servicing rights. rights that are assessed for fair value quarterly at the Company's request. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations. Small Business Administration ("SBA") loans are included in this category. Less than 1% of total commercial and commercial real estate loans are made up of non-owner occupied commercial real estate loans. The Company strategically focuses on loan classes that are government backed or can be sold in the secondary market.

Agricultural Production and Real Estate Loans (AG & AGRE): Agricultural production loans are generally comprised of seasonal operating lines of credit to grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. The Company also offers long term long-term financing to purchase agricultural real estate. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry-developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop and other farm assets as considered necessary. The Company is approved to sell agricultural loans in the secondary market through the Federal Agricultural Mortgage Corporation and uses this relationship to manage interest rate risk within the portfolio. Agricultural real estate loans included in this segment are typically structured with a one-year ARM, 3-year adjustable rate mortgage ("ARM"), three-year ARM or 5-year five-year ARM CMT and a margin. Agriculture production, livestock, and equipment loans are structured with variable rates that are indexed to prime or fixed for terms not exceeding 5 five years.

Consumer and Margin Loans (CON & MAR): Consumer loans are those loans secured by household assets. Margin loans are those loans secured by marketable securities. The term and maximum amount for these loans are determined by considering the purpose of the loan, the margin (advance percentage against value) in all collateral, the primary source of repayment, and the borrower's other related cash flow.

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ACL-Loans

The Company adopted CECL on January 1, 2022. CECL replaces the previous “Allowance for Loan and Lease Losses” standard for measuring credit losses. Upon adoption of CECL, the difference in the two measurements was recorded in the ACL-Loans and retained earnings.

The ACL-Loans is the Company’s estimate of current expected credit losses. Loans receivable is presented net of the allowance to reflect the principal balance expected to be collected over the contractual term of the loans. This life of loan allowance is established through a provision for credit losses charged to included in net interest income as loans are recorded in the financial statements. The provision for a reporting period also reflects increases or decreases in the allowance related to changes in credit loss expectations. Actual credit losses are charged against the allowance when management believes the uncollectability of a loan balance, or a portion thereof, is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The ACL-Loans is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of the loans considering relevant available information from internal and external sources, including historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. The allowance also incorporates reasonable and supportable forecasts. There have been no changes to the credit quality components used to assess risk during the nine three months ended September 30, 2023 March 31, 2024. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The level of the ACL is believed to be adequate to absorb current innate expected future losses in the loan portfolio as of the measurement date.

The ACL-Loans consists of individually evaluated loans and pooled loan components. The Company’s primary portfolio segmentation is by segmenting loans with similar risk characteristics. Loans risk graded substandard and worse are individually evaluated for expected credit losses. For individually evaluated loans that are collateral dependent, the Company may use the fair value of the collateral, less estimated costs to sell, as a practical expedient as of the reporting date to determine the carrying amount of an asset and the allowance for credit losses, as applicable. A loan is considered to be collateral dependent when repayment is expected to be provided substantially through the operation or the sale of the collateral when the borrower is experiencing financial difficulty as of the reporting date.

To calculate the allowance for expected credit losses on loans ACL-Loans risk graded pass through special mention, the portfolio is segmented by loans with similar risk characteristics.

Loan Portfolio Segment	ACL-Loans Methodology
Mortgage warehouse lines of credit repurchase agreements	Remaining Life Method
Residential real estate loans	Discounted Cash Flow
Multi-family financing	Discounted Cash Flow
Healthcare financing	Discounted Cash Flow

Commercial and commercial real estate	Discounted Cash Flow
Agricultural production and real estate	Remaining Life Method
Consumer and margin loans	Remaining Life Method

Loan characteristics used in determining the segmentation included the underlying collateral, type or purpose of the loan, and expected credit loss patterns. The initial estimation estimate of expected credit losses for each segment is based on historical credit loss experience and management's judgement. Given the Company's modest historical credit loss experience, peer and industry data was incorporated into the measurement. Expected life of loan credit losses are quantified using discounted cash flows and remaining life methodologies.

Model results are supplemented by qualitative adjustments for risk factors relevant in assessing the expected credit losses within the portfolio segments. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor.

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experience, peer and industry data was incorporated into the measurement. Expected life of loan credit losses are quantified using discounted cash flows and remaining life methodologies.

Model results are supplemented by qualitative adjustments for risk factors relevant in assessing the expected credit losses within the portfolio segments. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor. At September 30, 2023, the qualitative factors increased the estimate of expected losses.

The models utilized and the applicable qualitative adjustments require assumptions and management judgement that can be subjective in nature. The above measurement approach is also used to estimate the expected credit losses associated with unfunded loan commitments, which also incorporates expected utilization rates.

The following tables present, table presents, by loan portfolio segment, the activity in the ACL-Loans for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	For the Three Months Ended September 30, 2023								For the Three Months Ended March 31, 2024							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)															

									(In thousands)							
ACL-Loans																
Balance, beginning of period	$ 3,361	$7,413	$24,701	$16,123	$ 10,695	$ 556	$ 137	$62,986	$ 2,070	$7,323	$26,874	$22,454	$ 12,243	$ 619	$ 169	$71,752
FMBI's ACL for loans sold									—	(55)	(186)	(2)	(92)	(246)	(12)	(593)
Provision for credit losses	(495)	207	1,121	1,876	1,123	34	2	3,868	952	(363)	1,976	2,135	763	77	(63)	5,477
Loans charged to the allowance	—	(21)	—	—	—	—	—	(21)	—	—	—	—	(925)	—	—	(925)
Recoveries of loans previously charged-off	—	—	—	—	31	—	—	31	—	—	—	—	1	—	—	1
Balance, end of period	$ 2,866	$7,599	$25,822	$17,999	$ 11,849	$ 590	$ 139	$66,864	$ 3,022	$6,905	$28,664	$24,587	$ 11,990	$ 450	$ 94	$75,712

	For the Three Months Ended September 30, 2022								For the Three Months Ended March 31, 2023							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL

	(In thousands)								(In thousands)							
ACL-Loans																
Balance, beginning of period	$ 2,422	$4,910	$16,364	$7,936	$ 5,195	$ 551	$ 96	$37,474	$ 1,249	$7,029	$16,781	$ 9,882	$ 8,326	$ 565	$ 182	$44,014
Provision for credit losses	(230)	1,370	(2,365)	1,061	1,821	1	51	1,709	415	349	3,070	1,871	2,149	(22)	(15)	7,817
Loans charged to the allowance	—	(4)	—	—	(275)	—	—	(279)	—	—	—	—	—	—	—	—
Recoveries of loans previously charged-off	—	—	—	—	92	—	—	92	—	—	—	—	7	—	—	7
Balance, end of period	$ 2,192	$6,276	$13,999	$8,997	$ 6,833	$ 552	$ 147	$38,996	$ 1,664	$7,378	$19,851	$11,753	$ 10,482	$ 543	$ 167	$51,838

The Company recorded a total provision for credit losses of $4.0 million $4.7 million for the three months ended September 30, 2023 March 31, 2024. The $4.0 million $4.7 million total provision for credit losses consisted of $3.9 million $4.9 million for the ACL-Loans as shown above and $0.1 million $(0.2) million for the ACL-OBCE's. ACL-Off-Balance Sheet Credit Exposures ("OBCE's"). The $4.9 million total provision for ACL-Loans reflected an elimination of $593,000 from the sale of FMBI branches in January 2024.

The Company recorded a total provision for credit losses of $2.2 million $6.9 million for the three months ended September 30, 2022 March 31, 2023. The $2.2 million $6.9 million total provision for credit losses consisted of $1.7 million $7.8 million for the ACL-Loans as shown above and $0.5 million $(0.9) million for the ACL-OBCE's.

	For the Nine Months Ended September 30, 2023							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,249	$ 7,029	$ 16,781	$ 9,882	$ 8,326	$ 565	$ 182	$ 44,014
Provision for credit losses	1,617	604	17,441	8,117	4,601	25	(42)	32,363
Loans charged to the allowance	—	(34)	(8,400)	—	(1,118)	—	(1)	(9,553)
Recoveries of loans previously charged-off	—	—	—	—	40	—	—	40
Balance, end of period	$ 2,866	$ 7,599	$ 25,822	$ 17,999	$ 11,849	$ 590	$ 139	$ 66,864

The following table presents, by loan portfolio segment, the activity in the ACL-Loans for the twelve months ended December 31, 2023:

	For the Year Ended December 31, 2023							
	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,249	$ 7,029	$ 16,781	$ 9,882	$ 8,326	$ 565	$ 182	$ 44,014
Provision for credit losses	821	328	18,493	12,572	5,232	54	(12)	37,488
Loans charged to the allowance	—	(34)	(8,400)	—	(1,356)	—	(1)	(9,791)
Recoveries of loans previously charged-off	—	—	—	—	41	—	—	41
Balance, end of period	$ 2,070	$ 7,323	$ 26,874	$ 22,454	$ 12,243	$ 619	$ 169	$ 71,752

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	For the Nine Months Ended September 30, 2022							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,955	$ 4,170	$ 14,084	$ 4,461	$ 5,879	$ 657	$ 138	$ 31,344
Impact of adopting CECL	41	275	520	139	(1,277)	(18)	21	(299)
Provision for credit losses	196	1,835	(605)	4,397	2,726	(87)	(4)	8,458
Loans charged to the allowance	—	(4)	—	—	(1,238)	—	(15)	(1,257)
Recoveries of loans previously charged-off	—	—	—	—	743	—	7	750
Balance, end of period	$ 2,192	$ 6,276	$ 13,999	$ 8,997	$ 6,833	$ 552	$ 147	$ 38,996

The Company recorded a total provision for credit losses of $33.5 million for the nine months ended September 30, 2023. The $33.5 million total provision for credit losses consisted of $32.4 million for the ACL-Loans as shown above and $1.1 million for the ACL-OBCE’s.

The Company recorded a total provision for credit losses of $10.9 million for the nine months ended September 30, 2022. The $10.9 million total provision for credit losses consisted of $8.5 million for the ACL-Loans as shown above, $1.2 million for the ACL-OBCE’s and $1.2 million for ACL-Guarantees.

The following table presents the allowance for loan losses and the recorded investment in loans and impairment method as of December 31, 2022:

	December 31, 2022							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,955	$ 4,170	$ 14,084	$ 4,461	$ 5,879	$ 657	$ 138	$ 31,344
Impact of adopting CECL	41	275	520	139	(1,277)	(18)	21	(299)
Provision for credit losses	(747)	2,588	2,177	5,282	4,216	(74)	31	13,473
Loans charged to the allowance	—	(4)	—	—	(1,238)	—	(15)	(1,257)
Recoveries of loans previously charged-off	—	—	—	—	746	—	7	753
Balance, end of period	$ 1,249	$ 7,029	$ 16,781	$ 9,882	$ 8,326	$ 565	$ 182	$ 44,014

The below table presents the amortized cost basis and ACL-Loans allocated for collateral dependent loans, which are individually evaluated to determine expected credit losses: losses as of March 31, 2024 and December 31, 2023:

	September 30, 2023					March 31, 2024				
	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL-Loans Allocation	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL-Loans Allocation

			(In thousands)					(In thousands)		
RES RE	$ 801	$ —	$ 3	$ 804	$ 19	$ 1,272	$ —	$ —	$ 1,272	$ 8
MF FIN	32,334	—	—	32,334	188	53,200	—	—	53,200	581
HC FIN	30,683	—	—	30,683	2,358	63,283	—	—	63,283	5,652
CML & CRE	—	3,829	3,333	7,162	1,124	168	2,628	2,657	5,453	1,780
AG & AGRE	147	—	—	147	1	147	—	—	147	1
CON & MAR	—	—	3	3	—	—	—	—	—	—
Total collateral dependent loans	$ 63,965	$ 3,829	$ 3,339	$ 71,133	$ 3,690	$118,070	$ 2,628	$2,657	$123,355	$ 8,022

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There have been were no significant changes to the types of collateral securing the Company's collateral dependent loans compared to September 30, 2022 December 31, 2023.

	December 31, 2023				
	Real Estate	**Accounts Receivable / Equipment**	**Other**	**Total**	**ACL-Loans Allocation**
			(In thousands)		
RES RE	$ 1,557	$ —	$ 3	$ 1,560	$ 21
MF FIN	46,575	—	—	46,575	521
HC FIN	73,909	—	—	73,909	6,289
CML & CRE	146	3,603	2,684	6,433	1,132
AG & AGRE	147	—	—	147	1
CON & MAR	—	—	3	3	—
Total collateral dependent loans	$ 122,334	$ 3,603	$ 2,690	$ 128,627	$ 7,964

Internal Risk Categories

The Company evaluates the loan risk grading system definitions and ACL-Loans methodology on an ongoing basis. As of December 31, 2023, the Company created a newly defined special mention risk rating category to be consistent with industry practices. Loans with a Watch classification are now included in the Pass risk rating category as of December 31, 2023. This updated policy was approved by the Company's Management Committee, to be effective as of December 31, 2023 on a prospective basis.

In adherence with policy, the Company uses the following internal risk grading categories and definitions for loans: loans since December 31, 2023:

Pass – - Loans that are considered to be of acceptable credit quality, and not classified as Special Mention, Substandard or Doubtful. Also included are loans classified as watch loans, which represent loans that remain sound and collectible but contain elevated risk that requires management's attention.

Special Mention (Watch) – This is a loan that is sound and collectable but contains potential risk. Loans classified as special mention have a potential weakness weaknesses that deserves deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan asset or of in the institution's credit position at some future date. Special mention loans are not adversely classified and do

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not warrant adverse classification. Loans with questions or concerns regarding collateral, adverse market conditions impacting future performance, and declining financial trends would be considered for special mention.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. When a loan in the form of a line of credit is downgraded to substandard, it is evaluated for impairment and future draws under the line of credit require the approval of an officer of Senior Credit Officer or above.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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The following tables present the credit risk profile of the Company's loan portfolio based on internal risk rating category as of March 31, 2024 and December 31, 2023:

	March 31, 2024							
	2024	2023	2022	2021	2020	Prior	Revolving Loans	TOTAL
	(In thousands)							
MTG WHRA								
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,142,994	$ 1,142,994
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,142,994	$ 1,142,994
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
RES RE								
Pass	$ 1,780	$ 32,353	$ 9,793	$ 6,175	$ 21,315	$ 7,400	$ 1,240,994	$ 1,319,810
Special Mention	—	—	—	—	—	218	—	218
Substandard	—	—	—	—	—	—	1,272	1,272
Total	$ 1,780	$ 32,353	$ 9,793	$ 6,175	$ 21,315	$ 7,618	$ 1,242,266	$ 1,321,300
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
MF FIN								
Pass	$ 298,730	$ 957,019	$ 734,071	$ 114,353	$ 9,070	$ 34,587	$ 1,731,470	$ 3,879,300
Special Mention	8,000	96,900	28,559	8,400	—	1,470	20,777	164,106
Substandard	—	11,667	28,360	6,534	—	—	6,639	53,200
Total	$ 306,730	$ 1,065,586	$ 790,990	$ 129,287	$ 9,070	$ 36,057	$ 1,758,886	$ 4,096,606
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

HC FIN								
Pass	$ 258,604	$ 626,388	$ 936,880	$ 98,815	$ —	$ 14,459	$ 398,904	$ 2,334,050
Special Mention	24,319	20,900	9,502	—	—	—	12,631	67,352
Substandard	—	25,600	—	28,783	—	—	8,900	63,283
Total	$ 282,923	$ 672,888	$ 946,382	$ 127,598	$ —	$ 14,459	$ 420,435	$ 2,464,685
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CML & CRE								
Pass	$ 4,469	$ 54,002	$ 116,479	$ 71,824	$ 19,203	$ 34,169	$ 1,360,706	$ 1,660,852
Special Mention	—	—	—	289	157	—	—	446
Substandard	—	—	92	776	850	60	3,675	5,453
Total	$ 4,469	$ 54,002	$ 116,571	$ 72,889	$ 20,210	$ 34,229	$ 1,364,381	$ 1,666,751
Charge-offs	$ —	$ —	$ —	$ 925	$ —	$ —	$ —	$ 925
AG & AGRE								
Pass	$ 7,833	$ 7,875	$ 5,103	$ 2,722	$ 8,566	$ 15,515	$ 18,216	$ 65,830
Substandard	—	—	—	—	—	147	—	147
Total	$ 7,833	$ 7,875	$ 5,103	$ 2,722	$ 8,566	$ 15,662	$ 18,216	$ 65,977
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CON & MAR								
Pass	$ —	$ 109	$ 28	$ 25	$ 2	$ 4,268	$ 3,480	$ 7,912
Total	$ —	$ 109	$ 28	$ 25	$ 2	$ 4,268	$ 3,480	$ 7,912
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total Pass	$ 571,416	$ 1,677,746	$ 1,802,354	$ 293,914	$ 58,156	$ 110,398	$ 5,896,764	$ 10,410,748
Total Special Mention	$ 32,319	$ 117,800	$ 38,061	$ 8,689	$ 157	$ 1,688	$ 33,408	$ 232,122
Total Substandard	$ —	$ 37,267	$ 28,452	$ 36,093	$ 850	$ 207	$ 20,486	$ 123,355
Total Doubtful	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total Loans	$ 603,735	$ 1,832,813	$ 1,868,867	$ 338,696	$ 59,163	$ 112,293	$ 5,950,658	$ 10,766,225
Total Charge-offs	$ —	$ —	$ —	$ 925	$ —	$ —	$ —	$ 925

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	December 31, 2023							
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**TOTAL**
	(In thousands)							
MTG WHRA								
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 752,468	$ 752,468
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 752,468	$ 752,468

Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
RES RE								
Pass	$ 31,011	$ 10,086	$ 6,573	$ 22,725	$ 3,298	$ 9,340	$ 1,239,161	$ 1,322,194
Special Mention	—	—	—	—	59	492	—	551
Substandard	—	—	—	—	—	288	1,272	1,560
Total	$ 31,011	$ 10,086	$ 6,573	$ 22,725	$ 3,357	$ 10,120	$ 1,240,433	$ 1,324,305
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ 21	$ 13	$ 34
MF FIN								
Pass	$ 1,094,698	$ 762,448	$ 208,343	$ 77,340	$ 29,764	$ 8,455	$ 1,646,445	$ 3,827,493
Special Mention	94,973	3,189	8,400	—	—	1,477	24,052	132,091
Substandard	11,682	28,360	6,534	—	—	—	—	46,576
Total	$ 1,201,353	$ 793,997	$ 223,277	$ 77,340	$ 29,764	$ 9,932	$ 1,670,497	$ 4,006,160
Charge-offs	$ —	$ 8,400	$ —	$ —	$ —	$ —	$ —	$ 8,400
HC FIN								
Pass	$ 752,591	$ 996,273	$ 110,197	$ —	$ 14,563	$ —	$ 351,110	$ 2,224,734
Special Mention	35,869	9,520	—	—	—	—	12,658	58,047
Substandard	25,600	10,625	28,783	—	—	—	8,900	73,908
Total	$ 814,060	$ 1,016,418	$ 138,980	$ —	$ 14,563	$ —	$ 372,668	$ 2,356,689
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CML & CRE								
Pass	$ 51,110	$ 119,386	$ 77,316	$ 21,154	$ 21,088	$ 17,066	$ 1,328,980	$ 1,636,100
Special Mention	—	—	292	172	—	84	—	548
Substandard	—	70	1,701	878	62	—	3,672	6,383
Doubtful	—	—	—	—	—	50	—	50
Total	$ 51,110	$ 119,456	$ 79,309	$ 22,204	$ 21,150	$ 17,200	$ 1,332,652	$ 1,643,081
Charge-offs	$ —	$ 496	$ 274	$ 586	$ —	$ —	$ —	$ 1,356
AG & AGRE								
Pass	$ 16,850	$ 9,825	$ 6,490	$ 14,267	$ 5,237	$ 16,606	$ 33,728	$ 103,003
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	147	—	147
Total	$ 16,850	$ 9,825	$ 6,490	$ 14,267	$ 5,237	$ 16,753	$ 33,728	$ 103,150
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CON & MAR								
Pass	$ 748	$ 4,329	$ 247	$ 115	$ 27	$ 4,339	$ 3,862	$ 13,667
Special Mention	—	—	—	15	15	—	—	30
Substandard	—	—	—	—	—	3	—	3
Total	$ 748	$ 4,329	$ 247	$ 130	$ 42	$ 4,342	$ 3,862	$ 13,700
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ 1	$ —	$ 1
Total Pass	$ 1,947,008	$ 1,902,347	$ 409,166	$ 135,601	$ 73,977	$ 55,806	$ 5,355,754	$ 9,879,659
Total Special Mention	$ 130,842	$ 12,709	$ 8,692	$ 187	$ 74	$ 2,053	$ 36,710	$ 191,267
Total Substandard	$ 37,282	$ 39,055	$ 37,018	$ 878	$ 62	$ 438	$ 13,844	$ 128,577
Total Doubtful	$ —	$ —	$ —	$ —	$ —	$ 50	$ —	$ 50
Total Loans	$ 2,115,132	$ 1,954,111	$ 454,876	$ 136,666	$ 74,113	$ 58,347	$ 5,406,308	$ 10,199,553
Total Charge-offs	$ —	$ 8,896	$ 274	$ 586	$ —	$ 22	$ 13	$ 9,791

The following tables present the credit risk profile of the Company's loan portfolio based on internal risk rating category as of September 30, 2023 and December 31, 2022: Company did not have any material revolving loans converted to term loans at March 31, 2024 or December 31, 2023.

	As of September 30, 2023							
	2023	2022	2021	2020	2019	Prior	Revolving Loans	TOTAL
	(In thousands)							
MTG WHLOC								
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,022,692	$ 1,022,692
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,022,692	$ 1,022,692
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
RES RE								
Pass	26,185	9,563	7,014	23,009	3,325	9,621	1,278,828	1,357,545
Special Mention (Watch)	—	—	—	—	60	499	—	559
Substandard	—	—	—	—	—	292	512	804
Total	$ 26,185	$ 9,563	$ 7,014	$ 23,009	$ 3,385	$ 10,412	$ 1,279,340	$ 1,358,908
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ 21	$ 13	$ 34
MF FIN								
Pass	840,146	827,151	307,639	87,313	29,926	8,866	1,448,317	3,549,358
Special Mention (Watch)	70,681	3,189	3,404	9,926	—	1,484	38,944	127,628
Substandard	—	28,360	3,974	—	—	—	—	32,334
Total	$ 910,827	$ 858,700	$ 315,017	$ 97,239	$ 29,926	$ 10,350	$ 1,487,261	$ 3,709,320
Charge-offs	$ —	$ 8,400	$ —	$ —	$ —	$ —	$ —	$ 8,400
HC FIN								
Pass	364,365	1,068,033	214,938	67,266	14,668	—	274,666	2,003,936
Special Mention (Watch)	93,291	46,464	31,527	—	—	—	12,658	183,940
Substandard	—	—	21,783	—	—	—	8,900	30,683
Total	$ 457,656	$ 1,114,497	$ 268,248	$ 67,266	$ 14,668	$ —	$ 296,224	$ 2,218,559
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CML & CRE								
Pass	44,605	119,145	70,194	21,533	21,188	18,714	1,247,686	1,543,065
Special Mention (Watch)	112	36	8,671	173	145	233	434	9,804
Substandard	—	80	2,017	904	65	51	4,045	7,162
Total	$ 44,717	$ 119,261	$ 80,882	$ 22,610	$ 21,398	$ 18,998	$ 1,252,165	$ 1,560,031
Charge-offs	$ —	$ 496	$ 36	$ 586	$ —	$ —	$ —	$ 1,118
AG & AGRE								
Pass	11,805	10,023	6,660	14,537	5,077	18,745	29,496	96,343
Special Mention (Watch)	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	147	—	147
Total	$ 11,805	$ 10,023	$ 6,660	$ 14,537	$ 5,077	$ 18,892	$ 29,496	$ 96,490
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CON & MAR								
Pass	515	4,432	293	137	31	4,387	1,715	11,510
Special Mention (Watch)	—	—	—	16	15	1	—	32
Substandard	—	—	—	—	—	3	—	3
Total	$ 515	$ 4,432	$ 293	$ 153	$ 46	$ 4,391	$ 1,715	$ 11,545
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ 1	$ —	$ 1
Total Pass	$ 1,287,621	$ 2,038,347	$ 606,738	$ 213,795	$ 74,215	$ 60,333	$ 5,303,400	$ 9,584,449
Total Special Mention (Watch)	$ 164,084	$ 49,689	$ 43,602	$ 10,115	$ 220	$ 2,217	$ 52,036	$ 321,963
Total Substandard	$ —	$ 28,440	$ 27,774	$ 904	$ 65	$ 493	$ 13,457	$ 71,133
Total Loans	$ 1,451,705	$ 2,116,476	$ 678,114	$ 224,814	$ 74,500	$ 63,043	$ 5,368,893	$ 9,977,545
Total Charge-offs	$ —	$ 8,896	$ 36	$ 586	$ —	$ 22	$ 13	$ 9,553

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	December 31, 2022							
	2022	2021	2020	2019	2018	Prior	Revolving Loans	TOTAL
	(In thousands)							
MTG WHLOC								
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 464,785	$ 464,785
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 464,785	$ 464,785
RES RE								
Pass	13,344	8,192	24,708	3,498	1,722	11,166	1,114,705	1,177,335
Special Mention (Watch)	—	—	—	61	—	668	91	820
Substandard	—	—	—	—	74	172	—	246
Total	$ 13,344	$ 8,192	$ 24,708	$ 3,559	$ 1,796	$ 12,006	$ 1,114,796	$ 1,178,401
MF FIN								
Pass	1,212,008	544,823	200,829	32,349	4,416	7,229	1,042,024	3,043,678
Special Mention (Watch)	32,919	—	8,000	—	—	—	14,178	55,097
Substandard	36,760	—	—	—	—	—	—	36,760
Total	$ 1,281,687	$ 544,823	$ 208,829	$ 32,349	$ 4,416	$ 7,229	$ 1,056,202	$ 3,135,535
HC FIN								
Pass	987,676	301,103	78,792	13,770	—	—	123,888	1,505,229
Special Mention (Watch)	52,022	25,307	—	—	—	—	—	77,329
Substandard	—	21,783	—	—	—	—	—	21,783
Total	$ 1,039,698	$ 348,193	$ 78,792	$ 13,770	$ —	$ —	$ 123,888	$ 1,604,341
CML & CRE								
Pass	123,757	86,282	23,803	24,730	12,335	8,765	690,114	969,786
Special Mention (Watch)	43	164	963	119	99	228	1,376	2,992
Substandard	—	2,017	591	72	—	666	2,537	5,883
Total	$ 123,800	$ 88,463	$ 25,357	$ 24,921	$ 12,434	$ 9,659	$ 694,027	$ 978,661
AG & AGRE								
Pass	12,112	7,485	15,660	5,808	3,137	20,176	29,566	93,944
Special Mention (Watch)	14	55	462	421	163	389	56	1,560
Substandard	—	—	—	—	—	147	—	147
Total	$ 12,126	$ 7,540	$ 16,122	$ 6,229	$ 3,300	$ 20,712	$ 29,622	$ 95,651
CON & MAR								
Pass	4,673	463	307	101	4,589	9	3,328	13,470
Special Mention (Watch)	—	—	20	—	—	2	—	22
Substandard	—	—	—	—	—	6	—	6
Total	$ 4,673	$ 463	$ 327	$ 101	$ 4,589	$ 17	$ 3,328	$ 13,498
Total Pass	$ 2,353,570	$ 948,348	$ 344,099	$ 80,256	$ 26,199	$ 47,345	$ 3,468,410	$ 7,268,227
Total Special Mention (Watch)	$ 84,998	$ 25,526	$ 9,445	$ 601	$ 262	$ 1,287	$ 15,701	$ 137,820
Total Substandard	$ 36,760	$ 23,800	$ 591	$ 72	$ 74	$ 991	$ 2,537	$ 64,825
Total Loans	$ 2,475,328	$ 997,674	$ 354,135	$ 80,929	$ 26,535	$ 49,623	$ 3,486,648	$ 7,470,872

The Company did not have any material revolving loans converted to term loans at September 30, 2023 or December 31, 2022.

The Company evaluates the loan risk grading system definitions and ACL-Loans methodology on an ongoing basis. No significant changes were made to either during the past year.

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Delinquent Loans

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of September 30, 2023 March 31, 2024 and December 31, 2022.December 31, 2023.

	September 30, 2023						March 31, 2024					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)											
MTG WHLOC	$ —	$ —	$ —	$ —	$1,022,692	$1,022,692						
							(In thousands)					
MTG WHRA							$ —	$ —	$ —	$ —	$ 1,142,994	$ 1,142,99
RES RE	749	137	1,787	2,673	1,356,235	1,358,908	4,588	682	218	5,488	1,315,812	1,321,30
MF FIN	6,600	—	32,334	38,934	3,670,386	3,709,320	24,870	—	78,910	103,780	3,992,826	4,096,60
HC FIN	32,000	25,600	21,783	79,383	2,139,176	2,218,559	—	25,600	48,733	74,333	2,390,352	2,464,68

CML & CRE	—	44	4,095	4,139	1,555,892	1,560,031	1,922	—	3,006	4,928	1,661,823	1,666,75
AG & AGRE	—	58	147	205	96,285	96,490	44	10	159	213	65,764	65,97
CON & MAR	19	—	19	38	11,507	11,545	—	—	—	—	7,912	7,91
	$ 39,368	$ 25,839	$ 60,165	$125,372	$9,852,173	$9,977,545	$ 31,424	$ 26,292	$ 131,026	$188,742	$10,577,483	$10,766,22

	December 31, 2022						December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)						(In thousands)					
MTG WHLOC	$ —	$ —	$ —	$ —	$ 464,785	$ 464,785						
MTG WHRA							$ —	$ —	$ —	$ —	$ 752,468	$ 752,468
RES RE	4,053	152	272	4,477	1,173,924	1,178,401	4,557	—	2,379	6,936	1,317,369	1,324,305
MF FIN	—	—	—	—	3,135,535	3,135,535	38,218	11,055	39,609	88,882	3,917,278	4,006,160
HC FIN	—	—	21,783	21,783	1,582,558	1,604,341	—	47,275	35,999	83,274	2,273,415	2,356,689
CML & CRE	4,759	—	3,778	8,537	970,124	978,661	172	393	3,665	4,230	1,638,851	1,643,081
AG & AGRE	4,903	—	—	4,903	90,748	95,651	27	11	147	185	102,965	103,150
CON & MAR	6	24	22	52	13,446	13,498	1	3	18	22	13,678	13,700
	$ 13,721	$ 176	$ 25,855	$39,752	$7,431,120	$7,470,872	$ 42,975	$ 58,737	$ 81,817	$183,529	$10,016,024	$10,199,553

The above tables do not include two delinquent loans that were classified as held for sale at March 31, 2024, totaling $30.2 million.

Nonperforming Loans

Nonaccrual loans, including modified loans to borrowers experiencing financial difficulty that have not met the six-month minimum performance criterion, are reported as nonperforming loans. For all loan classes, it is the Company's policy to have any restructured modified loans which are on nonaccrual status prior to being restructured modified remain on nonaccrual status until six months of satisfactory borrower performance, at which time management would consider its return to accrual status. A loan is generally classified as nonaccrual when the Company believes that receipt of principal and interest is doubtful under the terms of the loan agreement. Most generally, this is at 90 or more days past due. The amount of interest income recognized on nonaccrual financial assets during the nine three months ended September 30, 2023 as of March 31, 2024 and 2023, respectively, was inconsequential. immaterial.

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The following table presents the Company's nonaccrual loans and loans past due 90 days or more and still accruing at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing
	(In thousands)				(In thousands)			
RES RE	$ 729	$ 1,058	$ 245	$ 96	$ 760	$ 218	$ 1,486	$ 894
MF FIN	32,334	—	—	—	46,248	32,662	39,608	—
HC FIN	21,783	—	21,783	—	28,783	19,950	28,783	7,216
CML & CRE	4,095	—	4,390	—	2,866	140	3,820	43
AG & AGRE	147	—	147	—	147	12	147	—
CON & MAR	3	16	6	16	—	—	3	15
	$ 59,091	$ 1,074	$ 26,571	$ 112	$ 78,804	$ 52,982	$ 73,847	$ 8,168

The Company did not have any nonperforming loans without an estimated ACL at September 30, 2023 March 31, 2024.

Modifications to Borrowers Experiencing Financial Difficulty

On January 1, 2023, the Company adopted FASB Accounting Standards Update ("ASU") ASU No. 2022-02, Financial Instruments – Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures, which eliminates the recognition and measurement of a troubled debt restructuring ("TDR"). The Company adopted the prospective approach for this new guidance.

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period.

The following table presents the amortized cost basis of loans at September 30, 2023 that were both experiencing financial difficulty and modified during the nine months ended September 30, 2023, by class and by type of modification. There were no new loans modified for borrowers experiencing financial difficulty during the three months ended September 30, 2023 March 31, 2024.

The percentage of Company closely monitors the amortized cost basis performance of loans that were are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The Company did not have loans modified in financial distress the last twelve months that were delinquent as compared to the amortized cost basis of each class of financing receivable is also presented below: March 31, 2024.

	For the Nine Months Ended September 30, 2023						
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Forgiveness	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
	(In thousands)						
Commercial and commercial real estate	$ —	$ 3,778	$ —	$ —	$ —	$ —	N/M %
Total	$ —	$ 3,778	$ —	$ —	$ —	$ —	N/M %

Foreclosures

There were no residential loans in the process of foreclosure as of March 31, 2024 and December 31, 2023.

Loans Purchased

The Company purchased $27.7 million and $98.8 million of loans during the three months ended March 31, 2024 and 2023, respectively.

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The financial effects of the modifications in the table above include an increase in the weighted average term for commercial and commercial real estate loans of twelve months. As part of our ACL analysis, these loans were individually evaluated for impairment and no specific reserve was recorded. The Company has committed to lend no additional amounts to the borrowers included in the table above.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last twelve months:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due
	(In thousands)			
Commercial and commercial real estate	$ —	$ —	$ 3,778	$ 3,778
Total	$ —	$ —	$ 3,778	$ 3,778

No modified loans defaulted during the three and nine months ended September 30, 2023.

Foreclosures

There were no residential loans in process of foreclosure as of September 30, 2023 and December 31, 2022.

Significant Loan Sales

Freddie Mac Q Series Securitization – 2023 Activity

On August 31, 2023, the Company completed a $303.6 million securitization of 11 multi-family mortgage loans through a Freddie Mac-sponsored Q-Series transaction. The transfer of these loans was accounted for as a sale for financial reporting purposes, in accordance with ASC 860, and a $60,000 loss on sale was recognized. The Company was retained as the mortgage sub-servicer for Freddie Mac on the entire $303.6 million pool of loans. Beyond sub-servicing the loans, the Company's ongoing involvement in this transaction is limited to customary obligations of loan sales, including any material breach in representation. In connection with this transaction, a mortgage servicing right of $1.5 million was established.

Loans Purchased

The Company purchased $329.0 million and $289.0 million of loans during the nine months ended September 30, 2023 and 2022, respectively.

Note 5: Variable Interest Entities (VIEs)

A VIE is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets generally that either:

- Does not have equity investors with voting rights that can directly or indirectly make decisions about the entity's activities through those voting rights or similar rights; or
- Has equity investors that do not provide sufficient equity for the entity to finance its activities without additional subordinated financial support.

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The Company has invested in single-family, multi-family, and healthcare debt financing entities, as well as low-income housing syndicated funds that are deemed to be VIEs. The Company also has deemed as VIEs a VIE, a real estate mortgage investment conduit (“REMIC”) REMIC trust that was established in conjunction with the September 2022 multi-family loan sale and securitization transaction. transaction, as well as a second REMIC trust that was established in December 2023 with a related party in conjunction with a loan sale and securitization. Accordingly, the entities were assessed for potential consolidation under the VIE model that requires primary beneficiaries to consolidate the entity’s results. A primary beneficiary is defined as the party that has both the power to direct the activities that most significantly impact the entity, and an interest that could be significant to the entity. To determine if an interest could be significant to the entity, both qualitative and quantitative factors regarding the nature, size and form of involvement with the entity are evaluated.

At September 30, March 31, 2024 2023 the Company determined it was not the primary beneficiary for most of its VIEs, primarily because the Company did not have the obligation to absorb losses or the rights to receive benefits from the VIE that could potentially be significant to the VIE. Evaluation and assessment of VIEs for consolidation is performed on an ongoing basis by management. Any changes in facts and circumstances occurring since the previous primary beneficiary determination will be is considered as part of this ongoing assessment.

The table below reflects the assets and liabilities of the VIEs as well as our maximum exposure to loss in connection with VIEs at March 31, 2024 and December 31, 2023. The Company’s maximum exposure to loss associated with its unconsolidated VIEs consists of the capital invested plus any unfunded equity commitments. These investments are recorded in other assets and other liabilities on our unaudited condensed consolidated balance sheet. The table below reflects the size of the VIEs as well as our maximum exposure to loss Also included in connection with VIEs at September 30, 2023 and December 31, 2022.

Assets ($ in thousands)	Total Assets	Total Liabilities	Maximum Exposure to Loss
		(In thousands)	
September 30, 2023			
Unconsolidated VIEs	$ 82,346	$ 37,964	$ 82,346
December 31, 2022			
Unconsolidated VIEs	$ 52,125	$ 25,564	$ 52,125

In addition to the table above, the Company also has a VIE in a REMIC trust that was established in September 2022 in conjunction with a loan sale and securitization. Although the trust is not recognized on the balance sheet, the maximum loss exposure are bridge loans to loss is the carrying value of the security VIEs and securities acquired as part of securitization transactions. The bridge loans are included in loans receivable and the securitization transaction, which was securities are included in securities held to maturity.

$794.6 million and $871.8 million at September 30, 2023 and December 31, 2022, respectively.

Assets	Investments in VIEs	Bridge loans to VIEs	Securities for VIEs	Maximum Exposure to Loss	Liabilities for VIEs
			($ in thousands)		
March 31, 2024					
Low-income housing tax credit investments	$ 96,675	$ 136,197	$ —	$ 232,872	$ 32,171
Debt funds	33,997	305,998	—	339,995	2,752
Off-balance-sheet REMIC trusts	—	—	1,163,191	1,163,191	—
Total Unconsolidated VIEs	$ 130,672	$ 442,195	$ 1,163,191	$ 1,736,058	$ 34,923
December 31, 2023					
Low-income housing tax credit investments	$ 118,741	$ 232,407	$ —	$ 351,148	$ 35,099
Debt funds	33,221	86,416	—	119,637	2,752
Off-balance-sheet REMIC trusts	—	—	1,192,201	1,192,201	—
Total Unconsolidated VIEs	$ 151,962	$ 318,823	$ 1,192,201	$ 1,662,986	$ 37,851

Note 6: **Regulatory Matters**

The Company, Merchants Bank, and FMBI are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by federal and state banking regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company, Merchants Bank, and FMBI must meet specific capital guidelines that involve quantitative measures of the Company's, Merchants Bank's, and FMBI's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's, Merchants Bank's, and FMBI's capital amounts and classification are also subject to qualitative judgments by the regulators about components, and other factors. Furthermore, the Company's, Merchants Bank's, and FMBI's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company, Merchants Bank, and FMBI to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of September 30, 2023 and December 31, 2022, that the Company, Merchants Bank, and FMBI met all capital adequacy requirements.

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Note 6: Regulatory Matters

The Company, Merchants Bank and FMBI (prior to the January 26, 2024 sale of its branches and merger of its remaining charter into Merchants Bank) are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by federal and state banking regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Merchants Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Merchants Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Merchants Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, and other factors. Furthermore, the Company's and Merchants Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Merchants Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of March 31, 2024 and December 31, 2023, that the Company and Merchants Bank met all capital adequacy requirements.

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the most recent notifications from the Board of Governors of the Federal Reserve System ("Federal Reserve") categorized the Company as well capitalized and most recent notifications from the Federal Deposit Insurance Corporation ("FDIC") categorized Merchants Bank and FMBI as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's or Merchants Bank's category.

FMBI was subject to these same requirements and guidelines prior to the sale of its branches and the merger of its remaining charter into Merchants Bank in January 2024. As of December 31, 2023, FMBI met all capital adequacy requirements (as set forth in the table below). The

FDIC categorized FMBI as well capitalized at that time and there are no conditions or FMBI's events since that notification that management believes would have changed that category.

The Company's, Merchants Bank's, and FMBI's actual capital amounts and ratios are presented in the following tables.

	Actual		Minimum Amount to be Well Capitalized with Basel III Buffer(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
September 30, 2023						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,699,507	11.5 %	$ 1,556,494	10.5 %	$ —	N/A %
Merchants Bank	1,669,849	11.5 %	1,526,849	10.5 %	1,454,142	10.0
FMBI	38,995	11.2 %	36,546	10.5 %	34,806	10.0 %
Tier I capital(1) (to risk-weighted assets)						
Company	1,620,024	10.9 %	1,260,019	8.5 %	—	N/A %
Merchants Bank	1,591,057	10.9 %	1,236,021	8.5 %	1,163,314	8.0
FMBI	38,303	11.0 %	29,585	8.5 %	27,845	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	1,120,416	7.6 %	1,037,663	7.0 %	—	N/A %
Merchants Bank	1,591,057	10.9 %	1,017,899	7.0 %	945,192	6.5
FMBI	38,303	11.0 %	24,364	7.0 %	22,624	6.5 %
Tier I capital(1) (to average assets)						
Company	1,620,024	10.1 %	640,543	4.0 %	—	N/A %
Merchants Bank	1,591,057	10.1 %	628,478	4.0 %	785,597	5.0
FMBI	38,303	10.6 %	14,440	4.0 %	18,050	5.0 %

	Actual		Minimum Amount to be Well Capitalized with Basel III Buffer(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
March 31, 2024						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,858,348	11.7 %	$ 1,662,302	10.5 %	$ —	N/A %
Merchants Bank	1,801,020	11.4 %	1,660,561	10.5 %	1,581,487	10.0
Tier I capital(1) (to risk-weighted assets)						
Company	1,768,553	11.2 %	1,345,673	8.5 %	—	N/A %
Merchants Bank	1,711,225	10.8 %	1,344,264	8.5 %	1,265,189	8.0
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	1,268,945	8.0 %	1,108,202	7.0 %	—	N/A %
Merchants Bank	1,711,225	10.8 %	1,107,041	7.0 %	1,027,966	6.5
Tier I capital(1) (to average assets)						
Company	1,768,553	10.5 %	839,199	5.0 %	—	N/A %
Merchants Bank	1,711,225	10.2 %	837,560	5.0 %	837,560	5.0

(1) As defined by regulatory agencies.

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	Actual		Minimum Amount to be Well Capitalized with Basel III Buffer(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2023						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,772,195	11.6 %	$ 1,598,260	10.5 %	$ —	N/A %
Merchants Bank	1,724,505	11.5 %	1,577,434	10.5 %	1,502,318	10.0 %
FMBI	40,613	21.1 %	20,209	10.5 %	19,247	10.0 %
Tier I capital(1) (to risk-weighted assets)						
Company	1,686,202	11.1 %	1,293,830	8.5 %	—	N/A %
Merchants Bank	1,639,171	10.9 %	1,276,970	8.5 %	1,201,854	8.0 %
FMBI	39,953	20.8 %	16,360	8.5 %	15,398	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	1,186,594	7.8 %	1,065,507	7.0 %	—	N/A %
Merchants Bank	1,639,171	10.9 %	1,051,623	7.0 %	976,507	6.5 %
FMBI	39,953	20.8 %	13,473	7.0 %	12,511	6.5 %
Tier I capital(1) (to average assets)						
Company	1,686,202	10.1 %	832,706	5.0 %	—	N/A %
Merchants Bank	1,639,171	10.1 %	815,191	5.0 %	815,191	5.0 %
FMBI	39,953	11.5 %	17,391	5.0 %	17,391	5.0 %

	Actual		Minimum Amount Required for Adequately Capitalized(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2022						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,507,968	12.2 %	$ 992,883	8.0 %	$ —	N/A %
Merchants Bank	1,427,738	11.7 %	975,853	8.0 %	1,219,817	10.0 %
FMBI	34,769	11.3 %	24,703	8.0 %	30,878	10.0 %
Tier I capital(1) (to risk-weighted assets)						
Company	1,452,456	11.7 %	744,662	6.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	731,890	6.0 %	975,853	8.0 %
FMBI	34,054	11.0 %	18,527	6.0 %	24,703	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	952,848	7.7 %	558,497	4.5 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	548,917	4.5 %	792,881	6.5 %
FMBI	34,054	11.0 %	13,895	4.5 %	20,071	6.5 %
Tier I capital(1) (to average assets)						

Company	1,452,456	11.7 %	497,604	4.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	487,511	4.0 %	609,389	5.0 %
FMBI	34,054	10.7 %	12,702	4.0 %	15,878	5.0 %

(1) As defined by regulatory agencies.

Note 7: Derivative Financial Instruments

The Company uses non-hedging, derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities.

Forward Sales Commitments, Internal Interest Rate Lock Commitments, and Interest Rate Swaps Risk Management

The Company enters into forward contracts for the future delivery of mortgage loans to third party investors and enters into interest rate lock commitments with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. The forward contracts are entered into in order to economically hedge the effect of changes in interest rates resulting from the Company's commitment to fund the loans.

Interest rate swaps are also used by the Company to reduce the risk that significant increases in interest rates may have on the value of certain fixed rate loans held for sale and the respective loan payments received from borrowers. All changes in the fair market value of these interest rate swaps and associated loans held for sale have been included in gain on sale of loans. Any difference between the fixed and floating interest rate components of these transactions have been included in interest income.

The Company entered into a contract containing put options and interest rate floors on securities it acquired from a warehouse customer. These provide protection and prevent losses in value of certain available for sale securities. The Company also entered into interest rate floor contracts with two warehouse loan customers to minimize interest rate risk. All changes in the fair market value of these items are considered derivatives, but are not designated as accounting hedges, options and are recorded at fair value with changes in fair value reflected in noninterest income on the condensed consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported floors have been included in other assets in the condensed consolidated balance sheets while derivative instruments with a negative fair value are reported in other liabilities in the condensed consolidated balance sheets. noninterest income.

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Credit Risk Management

In March 2024, the Company entered into a contract as the buyer of credit protection through the credit derivative market. A credit default swap was purchased to manage credit risk associated with specific multifamily mortgage loans. Under the terms of the contract, the Company will be compensated for certain credit-related losses on a pool of multifamily mortgage loans. The protection seller has posted aggregate collateral of $76.1 million related to their obligations under the contract. There was no value associated with the credit default swap as of March 31, 2024, as there was no consideration provided to the seller. All changes in the fair market value of this instrument will be included in other noninterest income.

All of these items are considered derivatives, but are not designated as accounting hedges, and are recorded at fair value with changes in fair value reflected in noninterest income on the unaudited condensed consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in other assets in the unaudited condensed consolidated balance sheets while derivative instruments with a negative fair value are reported in other liabilities in the unaudited condensed consolidated balance sheets.

The following table presents the notional amount and fair value of interest rate locks, forward contracts, interest rate swaps, put options and interest rate swaps floors utilized by the Company at September 30, 2023 March 31, 2024 and December 31, 2022. December 31, 2023. This table excludes the fair market value adjustment on loans associated with these derivatives.

March 31, 2024	Notional Amount (In thousands)	Balance Sheet Location	Fair Value Asset (In thousands)	Fair Value Liability (In thousands)
Interest rate lock commitments	$ 31,888	Other assets/liabilities	$ 174	$ 22
Forward contracts	33,375	Other assets/liabilities	9	110
Interest rate swaps	57,531	Other assets/liabilities	3,985	—
Put options	734,130	Other assets	33,490	—
Interest rate floors	1,229,918	Other assets	8,910	—
Credit derivatives	76,092	Other liabilities	—	—
			$ 46,568	$ 132

December 31, 2023	Notional Amount (In thousands)	Balance Sheet Location	Fair Value Asset (In thousands)	Fair Value Liability (In thousands)
Interest rate lock commitments	$ 16,526	Other assets/liabilities	$ 140	$ 4
Forward contracts	25,500	Other assets/liabilities	4	391
Interest rate swaps	57,540	Other assets/liabilities	2,610	—
Put options	748,374	Other assets	25,877	—
Interest rate floors	748,374	Other assets	6,576	—
			$ 35,207	$ 395

September 30, 2023	Notional Amount (In thousands)	Balance Sheet Location	Fair Value Asset (In thousands)	Fair Value Liability (In thousands)
Interest rate lock commitments	$ 24,495	Other assets/liabilities	$ 44	$ 141
Forward contracts	$ 34,376	Other assets/liabilities	236	1
Interest rate swaps	$ 57,548	Other assets/liabilities	5,792	—
			$ 6,072	$ 142

December 31, 2022	Notional Amount (In thousands)	Balance Sheet Location	Fair Value Asset (In thousands)	Fair Value Liability (In thousands)
Interest rate lock commitments	$ 8,759	Other assets/liabilities	$ 28	$ 23
Forward contracts	$ 13,096	Other assets/liabilities	46	52
Interest rate swaps	$ 57,574	Other assets/liabilities	3,030	—
			$ 3,104	$ 75

Fair values of these derivative financial instruments were estimated using changes in mortgage interest rates from the date the Company entered into the interest rate lock commitment and the balance sheet date. The following table summarizes the periodic changes in the fair value of the derivative financial instruments on the condensed consolidated statements of income for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In thousands)		(In thousands)	
Derivative gain (loss) included in gain on sale of loans:				
Interest rate lock commitments	$ (123)	$ (592)	$ (102)	$ (637)
Forward contracts (includes pair-off settlements)	595	1,091	875	5,550
Interest rates swaps	2,501	3,245	2,762	3,405
Net derivative gains	$ 2,973	$ 3,744	$ 3,535	$ 8,318

Derivatives on Behalf of Customers

The Company offers derivative contracts to some customers in connection with their risk management needs. These derivatives include back-to-back interest rate swaps. The Company manages the risk associated with these contracts by entering into an equal and offsetting derivative with a third-party dealer. These derivatives generally work together as an economic interest rate hedge, but the Company does not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred, typically resulting in no net earnings impact.

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The following table summarizes the periodic changes in the fair value of the derivative financial instruments on the condensed consolidated statements of income for the three months ended March 31, 2024 and 2023.

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Derivative gain (loss) included in gain on sale of loans:		
Interest rate lock commitments	$ 16	$ 209
Forward contracts (includes pair-off settlements)	94	(96)
Interest rates swaps	1,375	(1,336)
Net gain (loss)	$ 1,485	$ (1,223)
Derivative gain (loss) included in other income:		
Put options	7,613	—
Interest rate floors	2,334	—
Net gain (loss)	$ 9,947	$ —

Derivatives on Behalf of Customers

The Company offers derivative contracts to some customers in connection with their risk management needs. These derivatives include back-to-back interest rate swap arrangements. The Company manages the risk associated with these contracts by entering into an equal and offsetting derivative with a third-party dealer. These derivatives generally work together as an offsetting economic interest rate hedge, but the Company does not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred, typically resulting in no material net earnings impact.

The fair values of derivative assets and liabilities related to derivatives for customers with back-to-back interest rate swaps were recorded in the unaudited condensed consolidated balance sheets as follows:

	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
	(In thousands)		(In thousands)	
September 30, 2023	$ 270,427	Other assets/liabilities	$ 11,588	$ 11,588
December 31, 2022	$ 77,495	Other assets/liabilities	$ 3,041	$ 3,041

	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
	(In thousands)		(In thousands)	
March 31, 2024	$ 657,572	Other assets/liabilities	$ 15,259	$ 15,259
December 31, 2023	$ 607,169	Other assets/liabilities	$ 12,426	$ 12,426

The gross gains and losses on these derivative assets and liabilities were recorded in other noninterest income and other noninterest expense in the unaudited condensed consolidated statements of income as follows:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(In thousands)		(In thousands)		(In thousands)	
Gross swap gains	$ 2,111	$ 249	$ 8,547	$2,282	$ 2,833	$ 580
Gross swap losses	2,111	249	8,547	2,282	2,833	580

Net swap gains (losses)	$ —	$ —	$ —	$ —	$ —	$ —

The Company pledged $0 in collateral to secure its obligations under swap contracts at both September 30, 2023 March 31, 2024 and December 31, December 31, 2023.

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Note 8:Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying unaudited condensed consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	Fair Value Measurements Using				Fair Value Measurements Using			
Assets	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)				(In thousands)			
September 30, 2023								
March 31, 2024								
Mortgage loans in process of securitization	$ 476,047	$ —	$ 476,047	$ —	$142,629	$ —	$ 142,629	$ —
Securities available for sale:								
Treasury notes	137,886	137,886	—	—	109,103	109,103	—	—
Federal agencies	224,398	—	224,398	—	238,501	—	238,501	—
Mortgage-backed - Government-sponsored entity (GSE)	262,302	—	262,302	—				
Mortgage-backed - Agency					13,044	—	13,044	—

Mortgage-backed - Non-agency residential - fair value option					472,192	—	—	472,192
Mortgage-backed - Agency - fair value option					228,448	—	228,448	—
Loans held for sale	90,875	—	90,875	—	84,513	—	84,513	—
Servicing rights	162,141	—	—	162,141	172,200	—	—	172,200
Derivative assets - interest rate lock commitments	44	—	—	44				
Derivative assets - forward contracts	236	—	236	—				
Derivative assets - interest rate swaps	5,792	—	5,792	—				
Derivative assets - interest rate swaps (back-to-back)	11,588	—	11,588	—				
Derivative liabilities - interest rate lock commitments	141	—	—	141				
Derivative liabilities - forward contracts	1	—	1	—				
Derivative liabilities - interest rate swaps (back-to-back)	11,588	—	11,588	—				
Derivative assets:								
Interest rate lock commitments					174	—	—	174
Forward contracts					9	—	9	—
Interest rate swaps					3,985	—	3,985	—
Interest rate swaps (back-to-back)					15,259	—	15,259	—
Put options					33,490	—	10,514	22,976
Interest rate floors					8,910	—	—	8,910
Derivative liabilities:								
Interest rate lock commitments					22	—	—	22
Forward contracts					110	—	110	—
Interest rate swaps (back-to-back)					15,259	—	15,259	—
December 31, 2022								
December 31, 2023								
Mortgage loans in process of securitization	$ 154,194	$ —	$ 154,194	$ —	$110,599	$ —	$ 110,599	$ —
Securities available for sale:								
Treasury notes	36,280	36,280	—	—	128,968	128,968	—	—
Federal agencies	271,890	—	271,890	—	247,755	—	247,755	—
Mortgage-backed - Government-sponsored entity (GSE)	15,167	—	15,167	—				
Mortgage-backed - Agency					14,467	—	14,467	—
Mortgage-backed - Non-agency residential - fair value option					485,500	—	—	485,500
Mortgage-backed - Agency - fair value option					236,997	—	236,997	—
Loans held for sale	82,192	—	82,192	—	86,663	—	86,663	—
Servicing rights	146,248	—	—	146,248	158,457	—	—	158,457

Derivative assets - interest rate lock commitments	28	—	—	28				
Derivative assets - forward contracts	46	—	46	—				
Derivative assets - interest rate swaps	3,030	—	3,030	—				
Derivative assets - interest rate swaps (back-to-back)	3,041	—	3,041	—				
Derivative liabilities - interest rate lock commitments	23	—	—	23				
Derivative liabilities - forward contracts	52	—	52	—				
Derivative liabilities - interest rate swaps (back-to-back)	3,041	—	3,041	—				
Derivative assets:								
Interest rate lock commitments					140	—	—	140
Forward contracts					4	—	4	—
Interest rate swaps					2,610	—	2,610	—
Interest rate swaps (back-to-back)					12,426	—	12,426	—
Put options					25,877	—	7,223	18,654
Interest rate floors					6,576	—	—	6,576
Derivative liabilities:								
Interest rate lock commitments					4	—	—	4
Forward contracts					391	—	391	—
Interest rate swaps (back-to-back)					12,426	—	12,426	—

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Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying unaudited condensed consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the nine three months ended September 30, 2023 March 31, 2024 and the year ended December 31, 2022 December 31, 2023. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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Mortgage Loans in Process of Securitization, and Securities Available for Sale, and Securities with a Fair Value Option Election

Where quoted market prices are available in an active market, securities, such as U.S. Treasuries, are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy including federal agencies, mortgage-backed securities, municipal securities and Federal Housing Administration participation certificates. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Loans Held for Sale

Certain loans held for sale at fair value are saleable into the secondary mortgage markets and their fair values are estimated using observable quoted market or contracted prices, or market price equivalents, which would be used by other market participants. These saleable loans are considered Level 2.

Servicing Rights

Servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed, cost of servicing, interest rates, and default rate. Due to the nature of the valuation inputs, servicing rights are classified within Level 3 of the hierarchy.

The Chief Financial Officer's (CFO) office contracts with an independent pricing specialist to generate fair value estimates on a quarterly basis. The CFO's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Derivative Financial Instruments

Interest rate lock commitments - The Company estimates the fair value of interest rate lock commitments based on the value of the underlying mortgage loan, quoted mortgage backed mortgage-backed security prices, estimates of the fair value of the servicing rights, and an estimate of the probability that the mortgage loan will fund within the terms of the interest rate lock commitment, net of expenses. With respect to its interest rate lock commitments, management determined that a Level 3 classification was most appropriate based on the various significant unobservable inputs utilized in estimating the fair value of its interest rate lock commitments.

Forward sales commitments - The Company estimates the fair value of forward sales commitments based on market quotes of mortgage-backed security prices for securities similar to the ones used, which are considered Level 2.

Interest rate swaps – The Company estimates the fair value of interest rate swaps is based on prices that are obtained from a third party that uses observable market inputs, thereby supporting a Level 2 classification. Changes

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Put options - The fair value of put options are linked to securities available for sale that are accounted for using the fair value option and are classified as either Level 2 or Level 3 on the hierarchy. The put options are classified as Level 2 or Level 3 in the hierarchy, depending upon the magnitude of observable inputs in the valuation of the securities. These valuations are estimated by a third party.

Interest rate floors - The fair value of certain interest rate floors is linked to securities available for sale that are accounted for using the fair value option. Other interest rate floors are linked to loans with warehouse customers. The value of the interest rate floors is based on estimated discounted cash flows that are based on inputs that are not readily observable and, thus, are classified as Level 3 on the hierarchy. These valuations are estimated by a third party.

Credit Default Swap – The fair value of the Company's derivative financial instruments credit default swap is linked to the value of its underlying mortgage loans. The Company estimates the fair value based on estimated discounted cash flows that are recognized through noninterest income and/or noninterest expenses derived from inputs that are not readily observable and, thus, are classified as Level 3 on its condensed consolidated statement the hierarchy. These valuations are estimated by a third party.

The fair value of income. the credit default swap was equal to the transaction price of zero at inception on March 27, 2024. The Company will subsequently measure the fair value of the credit default swap each reporting period.

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Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs:

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
	(In thousands)		(In thousands)		(In thousands)	
Servicing rights						
Balance, beginning of period	$ 147,288	$ 130,710	$ 146,248	$ 110,348	$ 158,457	$ 146,248
Additions						
Originated servicing	4,867	11,667	9,164	22,662	2,166	2,173
Subtractions						
Paydowns	(1,660)	(1,946)	(5,431)	(7,963)	(2,387)	(1,698)
Sales of servicing	—	—	—	—		
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	11,646	4,553	12,160	19,937	13,964	(2,856)
Balance, end of period					$ 172,200	$ 143,867

Available for sale securities - Mortgage-backed - Non-Agency residential - fair value option						
Balance, beginning of period					$ 485,500	$ —
Paydowns					(8,986)	—
Changes in fair value					(4,322)	—
Balance, end of period					$ 472,192	$ —
Derivative Assets - put options						
Balance, beginning of period					$ 18,654	$ —
Changes in fair value					4,322	—
Balance, end of period					$ 22,976	$ —
Derivative Assets - interest rate floors						
Balance, beginning of period					$ 6,576	$ —
Changes in fair value					2,334	—
Balance, end of period	$ 162,141	$ 144,984	$ 162,141	$ 144,984	$ 8,910	$ —
Derivative Assets - interest rate lock commitments						
Balance, beginning of period	$ 94	$ 299	$ 28	$ 264	$ 140	$ 28
Changes in fair value	(50)	(275)	16	(240)	34	190
Balance, end of period	$ 44	$ 24	$ 44	$ 24	$ 174	$ 218
Derivative Liabilities - interest rate lock commitments						
Balance, beginning of period	$ 68	$ 121	$ 23	$ 41	$ 4	$ 23
Changes in fair value	73	317	118	397	18	(19)
Balance, end of period	$ 141	$ 438	$ 141	$ 438	$ 22	$ 4

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Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

	Fair Value Measurements Using			Fair Value Measurements Using		
	Quoted Prices in	Significant	Significant	Quoted Prices in	Significant	Significant

Assets	Fair Value	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(In thousands)			
September 30, 2023				
Impaired loans (collateral-dependent)	$ 40,809	$ —	$ —	$ 40,809
December 31, 2022				
Impaired loans (collateral-dependent)	$ 4,465	$ —	$ —	$ 4,465

Assets	Fair Value	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(In thousands)			
March 31, 2024				
Collateral dependent loans	$ 420	$ —	$ —	$ 420
December 31, 2023				
Collateral dependent loans	$47,026	$ —	$ —	$ 47,026

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying unaudited condensed consolidated balance sheet, sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral Dependent Loans, Net of ACL-Loans

The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral dependent and subsequently as deemed necessary by the Chief Credit Officer's ("CCO") office. Appraisals and evaluations are reviewed for accuracy and consistency by the CCO's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the CCO's office by comparison to historical results.

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Collateral Dependent Loans, Net of ACL-Loans

The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Chief Credit Officer's ("CCO)" office. Appraisals and evaluations are reviewed for accuracy and consistency by the CCO's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the CCO's office by comparison to historical results.

Unobservable (Level 3) Inputs:

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill.

	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average	Fair Value	Valuation Technique	Unobservable Inputs	Ran
	(In thousands)					(In thousands)			
At September 30, 2023:									
At March 31, 2024:									
Available for sale securities - Mortgage-backed - Non-Agency residential - fair value option						$ 472,192	Discounted cash flow	Market credit spread	2
Collateral dependent loans	$ 40,809	Market comparable properties	Marketability discount	0% - 54%	2%	$ 420	Market comparable properties	Marketability discount	24% -
Servicing rights - Multi-family	$ 125,111	Discounted cash flow	Discount rate	8% - 13%	9%	$ 135,314	Discounted cash flow	Discount rate	8% -
			Constant prepayment rate	1% - 25%	7%			Constant prepayment rate	0% -
Servicing rights - Single-family	$ 31,898	Discounted cash flow	Discount rate	9% - 10%	9%	$ 31,898	Discounted cash flow	Discount rate	10% -
			Constant prepayment rate	7% - 12%	7%			Constant prepayment rate	6% -
Servicing rights - SBA	$ 5,132	Discounted cash flow	Discount rate	16%	16%	$ 4,988	Discounted cash flow	Discount rate	16
			Constant prepayment rate	3% - 14%	8%			Constant prepayment rate	3% -
Derivative assets - interest rate lock commitments	$ 44	Discounted cash flow	Loan closing rates	62% - 99%	80%				
Derivative assets:									

Interest rate lock commitments							$	174	Discounted cash flow	Loan closing rates	50% -
Put options							$	22,976	Intrinsic option value	Market credit spread	2%
Interest rate floors							$	8,910	Discounted cash flow	Discount rate	6%-
Derivative liabilities - interest rate lock commitments	$	141	Discounted cash flow	Loan closing rates	62% - 99%	80%	$	22	Discounted cash flow	Loan closing rates	50% -
At December 31, 2022:											
At December 31, 2023:											
Available for sale securities - Mortgage-backed - Non-Agency residential - fair value option							$	485,500	Discounted cash flow	Market credit spread	2%
Collateral dependent loans	$	4,465	Market comparable properties	Marketability discount	4% - 54%	5%	$	47,026	Market comparable properties	Marketability discount	0% - 1
Servicing rights - Multi-family	$	111,690	Discounted cash flow	Discount rate	8% - 13%	9%	$	122,218	Discounted cash flow	Discount rate	8% -
				Constant prepayment rate	0 - 39%	8%				Constant prepayment rate	0% -
Servicing rights - Single-family	$	29,926	Discounted cash flow	Discount rate	9% - 10%	9%	$	30,959	Discounted cash flow	Discount rate	10% -
				Constant prepayment rate	7% - 10%	7%				Constant prepayment rate	6% -
Servicing rights - SBA	$	4,632	Discounted cash flow	Discount rate	16%	16%	$	5,280	Discounted cash flow	Discount rate	16
				Constant prepayment rate	3% - 12%	8%				Constant prepayment rate	3% -
Derivative assets - interest rate lock commitments	$	28	Discounted cash flow	Loan closing rates	60% - 87%	77%					
Derivative assets:											
Interest rate lock commitments							$	140	Discounted cash flow	Loan closing rates	45% -
Put options							$	18,654	Intrinsic option value	Market credit spread	2%
Interest rate floors							$	6,576	Discounted cash flow	Discount rate	6%-
Derivative liabilities - interest rate lock commitments	$	23	Discounted cash flow	Loan closing rates	60% - 87%	77%	$	4	Discounted cash flow	Loan closing rates	45% -

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement, and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Securities Available for Sale with a Fair Value Option Election, Loans, and Related Derivative Financial Instruments

The significant unobservable input used in the fair value measurement of certain securities available for sale and their related put options include market credit spreads that can be impacted by market conditions and drive a significant amount of a market participant's valuation of the security and its related put option. The impact of changes to the unobservable inputs for the securities is mitigated by changes to the unobservable inputs for the put options, which are valued in opposite directions, so as to minimize the financial impact to the Company.

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The significant unobservable input used in the fair value measurement of interest rate floor derivatives associated with certain securities available for sale and loans include the discount rate that can have a significant impact on the value of the derivative. Another variable that affects the floor value is the forward interest curve, which is observable, but changes with market conditions as interest rates and future interest rate expectations change.

Servicing Rights

The significant unobservable inputs used in the fair value measurement of the Company's servicing rights are discount rates and constant prepayment rates. These two inputs can drive a significant amount of a market participant's valuation of servicing rights. Significant increases (decreases) in the discount rate or assumed constant prepayment rates used to value servicing rights would decrease (increase) the value derived.

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Servicing Rights

The significant unobservable inputs used in the fair value measurement of the Company's servicing rights are discount rates and constant prepayment rates. These two inputs can drive a significant amount of a market participant's valuation of servicing rights. Significant increases

(decreases) in the discount rate or assumed constant prepayment rates used to value servicing rights would decrease (increase) the value derived.

Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair values of the Company's financial instruments not carried at fair value and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

Assets	Carrying Value	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
September 30, 2023					
Financial assets:					
Cash and cash equivalents	$ 407,238	$ 407,238	$ 407,238	$ —	$ —
Securities purchased under agreements to resell	3,385	3,385	—	3,385	—
Securities held to maturity	1,012,801	1,010,745	—	216,281	794,464
FHLB stock	48,219	48,219	—	48,219	—
Loans held for sale	3,386,161	3,386,161	—	3,386,161	—
Loans receivable, net	9,910,681	9,871,660	—	—	9,871,660
Interest receivable	78,401	78,401	—	78,401	—
Financial liabilities:					
Deposits	13,007,338	13,005,483	7,961,135	5,044,348	—
Short-term subordinated debt	81,000	81,000	—	81,000	—
FHLB advances	1,063,445	1,063,139	—	1,063,139	—
Other borrowing	362,934	362,934	—	362,934	—
Credit linked notes	146,696	146,694	—	146,694	—
Interest payable	49,757	49,757	—	49,757	—
December 31, 2022					
Financial assets:					
Cash and cash equivalents	$ 226,164	$ 226,164	$ 226,164	$ —	$ —
Securities purchased under agreements to resell	3,464	3,464	—	3,464	—
Securities held to maturity	1,119,078	1,118,966	—	247,182	871,784
FHLB stock	39,130	39,130	—	39,130	—
Loans held for sale	2,828,384	2,828,384	—	2,828,384	—
Loans receivable, net	7,426,858	7,431,731	—	—	7,431,731
Interest receivable	56,262	56,262	—	56,262	—
Financial liabilities:					
Deposits	10,071,345	10,064,941	7,082,056	2,982,885	—
Short-term subordinated debt	21,000	21,000	—	21,000	—
FHLB advances	859,392	858,984	—	858,984	—
Other borrowing	50,000	50,000	—	50,000	—
Interest payable	23,384	23,384	—	23,384	—

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Note 9: Leases

The Company has operating leases for various locations with terms ranging from two to eleven years. Some operating leases include options to extend. The extensions were included in the right-of-use asset if the likelihood of extension was fairly certain. The Company elected not to separate non-lease components from lease components for its operating leases.

The Company has operating lease right-of-use assets of $10.6 million and operating lease right-of-use liabilities of $11.8 million as of September 30, 2023.

Balance sheet, income statement and cash flow detail regarding operating leases follows:

	September 30, 2023	December 31, 2022
Balance Sheet	(In thousands)	(In thousands)
Operating lease right-of-of use asset (in other assets)	$ 10,556	$ 10,969
Operating lease liability (in other liabilities)	11,790	11,992
Weighted average remaining lease term (years)	6.1	6.5
Weighted average discount rate	2.88%	2.65%
Maturities of lease liabilities:		
One year or less	$ 622	$ 2,181
Year two	2,441	2,321
Year three	2,064	1,881
Year four	2,100	1,911
Year five	2,046	1,853
Thereafter	3,566	2,902
Total future minimum lease payments	12,839	13,049
Less: imputed interest	1,049	1,057
Total	$ 11,790	$ 11,992

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
Income Statement	(In thousands)	(In thousands)
Components of lease expense:		
Operating lease cost (in occupancy and equipment expense)	$ 591	$ 482

Income Statement	Nine Months Ended September 30, 2023 (In thousands)	Nine Months Ended September 30, 2022 (In thousands)
Components of lease expense:		
Operating lease cost (in occupancy and equipment expense)	$ 1,840	$ 1,274

Cash Flow Statement	Nine Months Ended September 30, 2023 (In thousands)	Nine Months Ended September 30, 2022 (In thousands)
Supplemental cash flow information:		
Operating cash flows from operating leases	$ 1,506	$ 1,061

			Fair Value Measurements Using		
Assets	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
March 31, 2024					
Financial assets:					
Cash and cash equivalents	$ 508,755	$ 508,755	$ 508,755	$ —	$ —
Securities purchased under agreements to resell	3,329	3,329	—	3,329	—
Securities held to maturity	1,175,167	1,176,178	—	466,573	709,605
FHLB stock	64,215	64,215	—	64,215	—
Loans held for sale	3,418,618	3,418,618	—	3,418,618	—
Loans receivable, net	10,690,513	10,646,477	—	—	10,646,477
Interest receivable	90,303	90,303	—	90,303	—
Financial liabilities:					
Deposits	13,975,661	13,973,624	8,018,126	5,955,498	—
Short-term subordinated debt	64,922	64,922	—	64,922	—
FHLB advances	1,426,299	1,425,888	—	1,425,888	—
Other borrowing	232,934	232,934	—	232,934	—
Credit linked notes	111,830	111,828	—	111,828	—
Interest payable	51,790	51,790	—	51,790	—
December 31, 2023					
Financial assets:					
Cash and cash equivalents	$ 584,422	$ 584,422	$ 584,422	$ —	$ —
Securities purchased under agreements to resell	3,349	3,349	—	3,349	—
Securities held to maturity	1,204,217	1,203,535	—	484,288	719,247
FHLB stock	48,578	48,578	—	48,578	—
Loans held for sale	3,058,093	3,058,093	—	3,058,093	—
Loans receivable, net	10,127,801	10,088,468	—	—	10,088,468
Interest receivable	91,346	91,346	—	91,346	—
Financial liabilities:					
Deposits	14,061,460	14,062,457	8,894,058	5,168,399	—
Short-term subordinated debt	64,922	64,922	—	64,922	—
FHLB advances	771,392	771,029	—	771,029	—
Other borrowing	7,934	7,934	—	7,934	—
Credit linked notes	119,879	119,878	—	119,878	—
Interest payable	43,423	43,423	—	43,423	—

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Note 10: Deposits 9: Leases

Deposits The Company has operating leases for various locations with terms ranging from one to seven years. Some operating leases include options to extend. The extensions were comprised included in the right-of-use asset if the likelihood of the following at September 30, 2023 extension was reasonably certain. The Company elected not to separate non-lease components from lease components for its operating leases.

The Company has operating lease right-of-use assets of $8.2 million and December 31, 2022:

$10.1 million as of March 31, 2024 and December 31, 2023, respectively, and operating lease right-of-use liabilities of $9.4 million and $11.3

	September 30, 2023	December 31, 2022
	(In thousands)	
Noninterest-bearing deposits		
Demand deposits	$ 287,846	$ 326,875
Total noninterest-bearing deposits	287,846	326,875
Interest-bearing deposits		
Demand deposits	$ 4,616,742	$ 3,720,363
Savings deposits	3,056,547	3,034,818
Certificates of deposit	5,046,203	2,989,289
Total interest-bearing deposits	12,719,492	9,744,470
Total deposits	$ 13,007,338	$ 10,071,345

Maturities for certificates of deposit are as Unaudited condensed consolidated balance sheet, income statement and cash flow detail regarding operating leases follows:

	September 30, 2023
	(In thousands)
Due within one year	$ 4,903,831
Due in one year to two years	92,483
Due in two years to three years	48,520
Due in three years to four years	961
Due in four years to five years	408
Due in five years to six years	—
	$ 5,046,203

	March 31, 2024	December 31, 2023
Balance Sheet	(In thousands)	(In thousands)

Operating lease right-of-of use asset (in other assets)	$	8,211	$	10,060
Operating lease liability (in other liabilities)		9,386		11,251
Weighted average remaining lease term (years)		4.8		6.0
Weighted average discount rate		3.19%		2.89%
Maturities of lease liabilities:				
One year or less	$	2,359	$	2,441
Year two		2,073		2,064
Year three		1,951		2,100
Year four		1,805		2,046
Year five		1,123		1,438
Thereafter		824		2,128
Total future minimum lease payments		10,135		12,217
Less: imputed interest		749		966
Total	$	9,386	$	11,251

		Three Months Ended March 31, 2024		**Three Months Ended March 31, 2023**
Income Statement		(In thousands)		(In thousands)
Components of lease expense:				
Operating lease cost (in occupancy and equipment expense)	$	604	$	583

		Three Months Ended March 31, 2024		**Three Months Ended March 31, 2023**
Cash Flow Statement		(In thousands)		(In thousands)
Supplemental cash flow information:				
Operating cash flows from operating leases	$	594	$	426

Brokered deposit amounts at September 30, 2023 and December 31, 2022, were as follows:

	September 30, 2023	**December 31, 2022**
	(In thousands)	
Brokered certificates of deposit	$ 4,393,282	$ 2,681,198
Brokered savings deposits	6,715	81,532
Brokered deposit on demand accounts	306	13
	$ 4,400,303	$ 2,762,743

Note 11: Borrowings

Borrowings were comprised of the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	**December 31, 2022**
	(In thousands)	
Federal Reserve discount window borrowings	$ 210,000	$ 20,000
Short-term subordinated debt	81,000	21,000

FHLB advances	1,063,445	859,392
American Financial Exchange borrowing	145,000	30,000
Credit linked notes	146,696	—
Other borrowings	7,934	—
Total borrowings	$ 1,654,075	$ 930,392

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On March 30, 2023, Merchants Bank of Indiana issued and sold credit linked notes, due May 26, 2028. The notes are secured by a restricted collateral account which the Company is required to maintain with a third-party financial institution. The collateral account maintains an amount equal to at least the initial aggregate unpaid principal of the notes. As of September 30, 2023, the account included $52.2 million of restricted cash and the acquisition of $98.8 million in short-term Treasury securities. These are reported as cash equivalents and securities available for sale in the consolidated balance sheets.

Note 10: Deposits

Deposits were comprised of the following at March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
	(In thousands)	
Noninterest-bearing deposits		
Demand deposits	$ 319,872	$ 520,070
Total noninterest-bearing deposits	319,872	520,070
Interest-bearing deposits		
Demand deposits	$ 4,680,405	$ 5,381,067
Savings deposits	3,017,849	2,992,921
Certificates of deposit	5,957,535	5,167,402
Total interest-bearing deposits	13,655,789	13,541,390
Total deposits	$ 13,975,661	$ 14,061,460

Maturities for certificates of deposit are as follows:

	March 31, 2024
	(In thousands)
Due within one year	$ 5,865,446
Due in one year to two years	76,281
Due in two years to three years	15,808

Due in three years to four years	—
Due in four years to five years	—
Due in five years to six years	—
	$ 5,957,535

Brokered deposit amounts at March 31, 2024 and December 31, 2023, were as follows:

	March 31, 2024	December 31, 2023
	(In thousands)	
Brokered certificates of deposit	$ 5,351,397	$ 4,465,825
Brokered savings deposits	1,338	589
Brokered deposit on demand accounts	400,159	1,504,230
	$ 5,752,894	$ 5,970,644

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Note 11: Borrowings

Borrowings were comprised of the following at March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
	(In thousands)	
Federal Reserve discount window borrowings	$ 50,000	$ —
Short-term subordinated debt	64,922	64,922
FHLB advances	1,426,299	771,392
American Financial Exchange borrowing	175,000	—
Credit linked notes, net of debt discount	111,830	119,879
Other borrowings	7,934	7,934
Total borrowings	$ 1,835,985	$ 964,127

On March 22, 2024, the Company entered into a new variable rate debt agreement with the FHLB for an advance that has put and call options attached to it. The balance of the advance was $500.0 million as of March 31, 2024, and matures on June 20, 2024. The variable interest rate is based on the Federal Funds effective rate, plus 10 basis points, which was 5.43% as of March 31, 2024. The FHLB has an option to cancel the agreement 60 days after the initial execution date and the Company has an option to cancel the agreement at any time, with one day's notice.

Note 12: Earnings Per Share

Earnings per share were computed as follows:

	Three Month Periods Ended September 30,						Three Month Periods Ended March 31,					
	2023			2022			2024			2023		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands)			(In thousands)			(In thousands, except share data)					
Net income	$ 81,504			$ 58,488			$87,054			$54,955		
Dividends on preferred stock	(8,668)			(5,729)			(8,667)			(8,667)		
Net income allocated to common shareholders	$ 72,836			$ 52,759			$78,387			$46,288		
Basic earnings per share		43,238,724	$ 1.68		43,107,975	$ 1.22		43,305,985	$ 1.81		43,179,604	$ 1.07
Effect of dilutive securities-restricted stock awards		112,484			150,950			160,662			111,175	
Diluted earnings per share		43,351,208	$ 1.68		43,258,925	$ 1.22		43,466,647	$ 1.80		43,290,779	$ 1.07

	Nine Month Periods Ended September 30,

	2023			2022		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands)			(In thousands)		
Net income	$ 201,761			$ 162,565		
Dividends on preferred stock	(26,003)			(17,186)		
Net income allocated to common shareholders	$ 175,758			$ 145,379		
Basic earnings per share		43,218,125	$ 4.07		43,182,380	$ 3.37
Effect of dilutive securities-restricted stock awards		99,218			148,768	
Diluted earnings per share		43,317,343	$ 4.06		43,331,148	$ 3.36

Note 13: Share-Based Payment Plans

Equity-based incentive awards for Company officers are currently issued pursuant to the 2017 Equity Incentive Plan (the "2017 Incentive Plan"). During The Company issued 85,212 and 84,335 shares during the three months ended September 30, 2023 March 31, 2024 and 2022, the Company did not issue any shares. During the nine months ended September 30, 2023 and 2022, the Company issued 84,335 and 64,962 shares, 2023, respectively.

During 2018, the Compensation Committee of the Board of Directors approved a plan for non-executive directors to receive a portion of their annual retainer fees in the form of shares of common stock equal to $10,000, rounded up to the nearest whole share. stock. In January 2021, November 2023, the Board of Directors amended the plan for nonexecutive directors to receive a portion of their annual fees, issued quarterly, in the form of restricted common stock equal to $50,000 $70,000 per member, rounded up to the nearest whole share, to be effective after the Company's annual meeting as of shareholders held in May 2021. January 1, 2024. Accordingly, there were 2,912 3,164 and 3,073 2,863 shares, issued to non-executive directors during the three months ended September 30, 2023 March 31, 2024 and 2022, respectively and there were 9,457 and 8,894 shares, issued to non-executive directors during the nine months ended September 30, 2023, and 2022, respectively.

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The Company established an employee stock ownership plan ("ESOP") effective as of January 1, 2020 to provide certain benefits for all employees who meet certain requirements. There was no contribution to the ESOP during the three months ended September 30, 2023 and 2022. Expenses associated with Expense recognized for the contribution to the ESOP totaled $810,000 $287,000 and $653,000 $267,000 for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The Company contributed 33,293 23,414 shares and 20,709 33,293 shares to the ESOP for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Note 14: Preferred Stock

Public Offerings of Preferred Stock:

Series A – On March 28, 2019, the Company issued 2,000,000 shares of 7.00% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, without par value, and with a liquidation preference of $25.00 per share (the “Series A Preferred Stock”). The aggregate gross offering proceeds for the shares issued by the Company was $50.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $1.7 million paid to third parties, the Company received total net proceeds of $48.3 million. On April 12, 2019, the Company issued an additional 81,800 shares of Series A Preferred Stock to the underwriters related to their exercise of an option to purchase additional shares under the associated underwriting agreement, resulting in an additional $2.0 million in net proceeds, after deducting $41,000 in underwriting discounts.

The Company redeemed all outstanding shares of the Series A Preferred Stock on April 1, 2024 at a price equal to the liquidation preference of $25.00 per share, using cash on hand. As of the redemption date, the Series A Preferred Stock did not have any accrued but unpaid dividends.

Series B – On August 19, 2019, the Company issued 5,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.00% Fixed-to-Floating Rate Series B Non-Cumulative Perpetual Preferred Stock, without par value (the “Series B Preferred Stock”), and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share). The aggregate gross offering proceeds for the shares issued by the Company was $125.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $4.2 million paid to third parties, the Company received total net proceeds of $120.8 million.

The Series B Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series B Preferred Stock, to the extent declared by the Company’s board, are payable quarterly. The Company may redeem the Series B Preferred Stock, in whole or in part, at its option, on any dividend payment date on or after October 1, 2024, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

Series C – On March 23, 2021, the Company issued 6,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.00% Fixed-to-Floating Rate Series C Non-Cumulative Perpetual Preferred Stock, without par value (the “Series C Preferred Stock”), and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share). The aggregate gross offering proceeds for the shares issued by the Company was $150.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $5.1 million paid to third parties, the Company received total net proceeds of $144.9 million.

The Series C Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series C Preferred Stock, to the extent declared by the Company’s board, are payable quarterly. The Company may redeem the Series C Preferred Stock, in whole or in part, at its option, on any dividend payment date on or after April 1, 2026, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

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Series D – On September 27, 2022, the Company issued 5,200,000 depositary shares, each representing a 1/40th interest in a share of its 8.25% Fixed Rate Reset Series D Non-Cumulative Perpetual Preferred Stock, without par value (the “Series D Preferred Stock”), and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share). The aggregate gross offering proceeds for the shares issued by the Company was $130.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $4.6 million paid to third parties, the Company received total net proceeds of $125.4 million. On September 30, 2022, the Company issued an additional 500,000 depositary shares of Series D Preferred Stock to the underwriters related to their exercise of an option to purchase additional shares under the associated underwriting agreement, resulting in an additional $12.1 million in net proceeds, after deducting $0.4 million in underwriting discounts.

The Series D Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series D Preferred Stock, to the extent declared by the Company’s board, are payable quarterly. The Company may redeem the Series D Preferred Stock, in whole or in part, at its option, on any dividend payment date on or after October 1, 2027, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

Note 15: Segment Information

Our The Company’s business segments are defined as Multi-family Mortgage Banking, Mortgage Warehousing, and Banking. The reportable business segments are consistent with the internal reporting and evaluation of the principal lines of business of the Company. The Multi-family Mortgage Banking segment originates and services government sponsored mortgages for multi-family and healthcare facilities. It is also a fully integrated syndicator of low-income housing tax credit and debt funds. The Mortgage Warehousing segment funds agency eligible residential loans from the date of origination or purchase, until the date of sale in the secondary market, as well as commercial loans to non-depository financial institutions. The Banking segment provides a wide range of financial products and services to consumers and businesses, including retail banking, commercial lending, agricultural lending, retail and correspondent residential mortgage banking, and Small Business Administration (“SBA”) lending. The Other segment includes general and administrative expenses that provide services to all segments; internal funds transfer pricing offsets resulting from allocations to/from the other segments, certain elimination entries and investments in qualified affordable housing limited partnerships. partnerships or LLCs and certain debt funds. All operations are domestic.

The tables below present selected business segment financial information for the three and nine months ended September 30, 2023 and 2022.

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
Three Months Ended September 30, 2023			(In thousands)		
Interest income	$ 1,580	$ 85,280	$ 208,307	$ 1,509	$ 296,676
Interest expense	19	57,633	123,594	(2,006)	179,240
Net interest income	1,561	27,647	84,713	3,515	117,436
Provision for credit losses	—	(495)	4,509	—	4,014
Net interest income after provision for credit losses	1,561	28,142	80,204	3,515	113,422
Noninterest income	37,266	1,884	(536)	(2,546)	36,068
Noninterest expense	19,169	4,014	10,945	8,802	42,930
Income (loss) before income taxes	19,658	26,012	68,723	(7,833)	106,560
Income taxes	4,973	6,086	16,278	(2,281)	25,056
Net income (loss)	$ 14,685	$ 19,926	$ 52,445	$ (5,552)	$ 81,504
Total assets	$ 392,754	$ 4,757,817	$ 11,135,651	$ 209,014	$ 16,495,236

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Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Three Months Ended September 30, 2022	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Interest income	$ 589	$ 31,240	$ 99,982	$ 2,301	$ 134,112
Interest expense	—	15,089	34,513	(875)	48,727
Net interest income	589	16,151	65,469	3,176	85,385
Provision for credit losses	—	222	2,003	—	2,225
Net interest income after provision for credit losses	589	15,929	63,466	3,176	83,160
Noninterest income	39,421	1,106	(8,317)	(3,024)	29,186
Noninterest expense	21,741	2,332	3,752	7,126	34,951
Income (loss) before income taxes	18,269	14,703	51,397	(6,974)	77,395
Income taxes	4,903	2,902	12,053	(951)	18,907
Net income (loss)	$ 13,366	$ 11,801	$ 39,344	$ (6,023)	$ 58,488
Total assets	$ 343,443	$ 2,735,278	$ 8,760,416	$ 139,585	$ 11,978,722

The tables below present selected business segment financial information for the three months ended March 31, 2024 and 2023.

Three Months Ended March 31, 2024	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Interest income	$ 1,746	$ 84,901	$ 224,288	$ 3,238	$ 314,173
Interest expense	20	56,140	131,723	(766)	187,117
Net interest income	1,726	28,761	92,565	4,004	127,056
Provision for credit losses	—	940	3,786	—	4,726
Net interest income after provision for credit losses	1,726	27,821	88,779	4,004	122,330
Noninterest income	40,467	3,317	429	(3,339)	40,874
Noninterest expense	19,571	4,798	15,578	8,965	48,912
Income (loss) before income taxes	22,622	26,340	73,630	(8,300)	114,292
Income taxes	6,013	6,150	17,205	(2,130)	27,238
Net income (loss)	$ 16,609	$ 20,190	$ 56,425	$ (6,170)	$ 87,054
Total assets	$ 416,454	$ 5,369,299	$ 11,760,028	$ 276,795	$ 17,822,576

Three Months Ended March 31, 2023	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
Interest income	$ 1,106	$ 42,318	$ 166,726	$ 1,144	$ 211,294
Interest expense	—	27,794	84,526	(1,719)	110,601
Net interest income	1,106	14,524	82,200	2,863	100,693
Provision for credit losses	—	1,364	5,503	—	6,867
Net interest income after provision for credit losses	1,106	13,160	76,697	2,863	93,826
Noninterest income	16,597	1,033	(1,189)	(2,177)	14,264
Noninterest expense	14,631	2,755	10,170	7,216	34,772
Income (loss) before income taxes	3,072	11,438	65,338	(6,530)	73,318
Income taxes	1,106	2,797	16,031	(1,571)	18,363
Net income (loss)	$ 1,966	$ 8,641	$ 49,307	$ (4,959)	$ 54,955
Total assets	$ 341,487	$ 3,318,491	$ 10,430,293	$ 150,695	$ 14,240,966

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Nine Months Ended September 30, 2023					
Interest income	$ 3,934	$ 191,865	566,439	$ 3,801	$ 766,039
Interest expense	32	128,411	319,431	(5,581)	442,293
Net interest income	3,902	63,454	247,008	9,382	323,746
Provision for credit losses	—	3,189	30,295	—	33,484
Net interest income after provision for credit losses	3,902	60,265	216,713	9,382	290,262
Noninterest income	84,188	5,789	(2,485)	(7,278)	80,214
Noninterest expense	53,762	10,386	33,233	24,641	122,022
Income (loss) before income taxes	34,328	55,668	180,995	(22,537)	248,454
Income taxes	6,435	8,505	36,593	(4,840)	46,693
Net income (loss)	$ 27,893	$ 47,163	$ 144,402	$ (17,697)	$ 201,761
Total assets	$ 392,754	$ 4,757,817	$ 11,135,651	$ 209,014	$ 16,495,236

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Nine Months Ended September 30, 2022					
Interest income	$ 1,229	$ 74,816	$ 217,285	$ 6,064	$ 299,394
Interest expense	—	22,686	55,066	(1,499)	76,253
Net interest income	1,229	52,130	162,219	7,563	223,141
Provision for credit losses	1,153	849	8,886	—	10,888
Net interest income after provision for credit losses	76	51,281	153,333	7,563	212,253
Noninterest income	121,037	4,316	(16,380)	(6,019)	102,954
Noninterest expense	60,231	7,699	12,960	18,051	98,941
Income (loss) before income taxes	60,882	47,898	123,993	(16,507)	216,266
Income taxes	16,468	11,070	29,953	(3,790)	53,701
Net income (loss)	$ 44,414	$ 36,828	$ 94,040	$ (12,717)	$ 162,565
Total assets	$ 343,443	$ 2,735,278	$ 8,760,416	$ 139,585	$ 11,978,722

Note 16: Recent Accounting Pronouncements

The Company continually monitors potential accounting pronouncement and SEC release changes. The following pronouncements and releases have been deemed to have the most applicability to the Company's financial statements:

FASB ASU 2023-07 - Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures

In November 2023, the FASB issued an ASU update that will require public entities' disclosures, on an annual and interim basis, to include additional details on reportable segments so financial statement users may better understand an entity's overall performance and assist in assessing potential future cash flows. The new guidance will require public entities to present information regarding significant segment expenses that are regularly provided to the chief operating decision maker (CODM) as well as details regarding segment's profit and loss.

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The updates in ASU 2023-07 are effective for annual periods beginning after December 15, 2023 and interim periods for years beginning after December 15, 2024. An entity shall apply the ASU retrospectively to financial statements for periods beginning after the effective date. The Company is continuing to evaluate the impact of adopting this new guidance but does not expect it to have a material impact on the Company's financial position or results of operations.

FASB ASU 2023-09 - Income Taxes (Topic 740): Improvements to Income Tax Disclosures

In December 2023, the FASB issued an ASU update that will require public business entity's disclosures to include a tabular tax rate reconciliation. The update will also require all public entities disclose income tax expense and taxes paid broken down by federal, state, and foreign with a disaggregation for jurisdictions that exceed 5% of income for taxes paid.

The updates in ASU 2023-09 are effective for annual periods beginning after December 15, 2024. An entity shall apply the ASU on a prospective basis to financial statements for annual periods beginning after the effective date. The Company is continuing to evaluate the impact of adopting this new guidance but does not expect it to have a material impact on the Company's financial position or results of operations.

Note 15: Recent Accounting Pronouncements

The Company continually monitors potential accounting pronouncement and SEC release changes. No new pronouncements or releases are expected to be applicable to the Company.

Note 16: 17: Subsequent Events

No material events were noted.The Company redeemed all outstanding shares of the Series A Preferred Stock on April 1, 2024 at a price equal to the liquidation preference of $25.00 per share, or $52 million, using cash on hand. As of March 31, 2024, the cash to redeem the shares was delivered to the Company's transfer agent, resulting in a prepaid asset reported in other assets. As of the redemption date the Series A Preferred Stock did not have any accrued, but unpaid dividends.

Merchants Bancorp

Notes to Condensed Consolidated Financial Statements

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Forward-Looking Statements

Certain statements in this Form 10-Q, including, but not limited to, statements within Management's Discussion and Analysis of Financial Condition and Results of Operations, are "forward-looking statements" within the meaning of the rules and regulations of the Securities and Exchange Commission ("SEC"). 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," "goal," "target," "outlook," "aim," "would," "annualized", "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 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 factors identified in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 or "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q or the following:

- business and economic conditions, particularly those affecting the financial services industry and our primary market areas;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit losses on loans; loan loss;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our commercial borrowers and the success of construction projects that we finance, including any loans acquired in acquisition transactions;
- compliance with governmental and regulatory requirements relating to banking, consumer protection, securities, and tax matters;
- our ability to maintain licenses required in connection with residential and multi-family mortgage origination, sale, and servicing operations;
- our ability to identify and address cyber-security risks, fraud, and systems errors;
- our ability to effectively execute our strategic plan and manage our growth;
- changes in our senior management team and our ability to attract, motivate, and retain qualified personnel;
- governmental monetary and fiscal policies, and changes in market interest rates;
- liquidity issues, including fluctuations in the fair value and liquidity of the securities we hold for sale and our ability to raise additional capital, if necessary;
- compliance with governmental and regulatory requirements, relating to banking, consumer protection, securities, and tax matters;
- our ability to maintain licenses required in connection with residential and multi-family mortgage origination, sale, and servicing operations;
- our ability to identify and address cybersecurity risks, fraud, and systems errors;
- our ability to effectively execute our strategic plan and manage our growth;
- changes in our senior management team and our ability to attract, motivate, and retain qualified personnel;
- governmental monetary and fiscal policies, and changes in market interest rates;

- effects of competition from a wide variety of local, regional, national, and other providers of financial, investment and insurance services;

- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation; and

- changes in federal tax law or policy.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Form 10-Q. 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of the financial condition at September 30, 2023 March 31, 2024 and results of operations for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto, appearing in Part I, Item 1 of this Form 10-Q.

The words "the Company," "we," "our" "our," and "us" refer to Merchants Bancorp and its consolidated subsidiaries, unless we indicate otherwise.

Financial Highlights for the Three Months Ended September 30, 2023 March 31, 2024

- Net income of $81.5 million $87.1 million increased 39% $32.1 million, or 58%, compared to September 30, 2022 and diluted earnings per share of $1.68 increased 38% compared to September 30, the three months ended March 31, 2023. 2022.
- The 39% increase in net income was primarily driven by a $32.1 million $26.4 million, or 38% 26%, increase in net interest income. income and a $17.0 million, or 722%, increase in loan servicing fees, that was partially offset by a $14.1 million, or 41%, increase in noninterest expense.
- Diluted earnings per share of $1.80 increased 68% compared to the three months ended March 31, 2023.
- Tangible book value per common share of $29.26 increased 28% compared to $22.88 for the three months ended March 31, 2023.
- Total assets of $16.5 billion $17.8 billion increased 4% 25% compared to June 30, 2023 March 31, 2023, and increased 31% 5% compared to December 31, 2022 December 31, 2023.
- Loans receivable, net of allowance for credit losses on loans, of $10.7 billion, increased $2.1 billion, or 25%, compared to March 31, 2023, and increased $562.7 million, or 6%, compared to December 31, 2023.
- As of September 30, 2023 March 31, 2024, approximately 94% of the total net loans at Merchants Bank reprice within three months, which reduces the risk of market rate increases.
- Net interest margin was 3.14% compared to 3.27% for the three months ended March 31, 2023.
- Efficiency ratio was 29.1% compared to 30.3% for the three months ended March 31, 2023.
- As of March 31, 2024, the Company had $5.4 billion, or 32%, of total assets, $5.6 billion in unused borrowing capacity with the Federal Home Loan Bank and the Federal Reserve Discount window based on available collateral.
- The Company's most liquid assets are in unrestricted cash, short-term investments, including interest-bearing demand deposits, mortgage loans in process of securitization, loans held for sale, and warehouse lines of credit repurchase agreements included in loans receivable. Taken together, with unused borrowing capacity, these totaled $10.7 billion $10.9 billion, or 65% 61%, of the $16.5 billion $17.8 billion in total assets as of September 30, 2023 March 31, 2024.
- Uninsured deposits totaled approximately $2 billion $2.1 billion as of September 30, 2023 March 31, 2024, representing less than 20% 15% of total deposits.
- Loans receivable Since 2018, the Company has offered its customers an opportunity to insure balances in excess of $9.9 billion, net $250,000 through our Insured Cash Sweep program that extends FDIC protection up to $100 million. The balance of allowance for credit losses on loans increased $2.5 billion, or 33%, compared to December 31, 2022 deposits in this program was $1.7 billion as of March 31, 2024.
- Efficiency ratio was 28.0% Results included a $14.0 million positive fair market value adjustment to servicing rights compared to 30.5% for a $2.9 million negative adjustment in the three months ended September 30, 2022 March 31, 2023.
- As of September 30, 2023, approximately 94% of the total net loans at Merchants Bank reprice within three months, which reduces the risk of market rate increases.
- Tangible book value per common share of $25.82 increased 24% compared to $20.78 for the three months ended September 30, 2022.
- On August 31, 2023, the Company completed a $303.6 million securitization of 11 multi-family mortgage loans through a Freddie Mac-sponsored Q-Series transaction.
- On September 7, 2023, the Company entered into an agreement with Bank of Pontiac to sell its Farmers-Merchants Bank of Illinois branch locations in Paxton, Melvin and Piper City, Illinois and an agreement with CBI Bank & Trust, to sell its Farmers-Merchants Bank of Illinois branch located in Joy, Illinois.

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- Quarterly dividends of $0.09 per common share increased 13% compared to the three months ended March 31, 2023.

- The Company redeemed all outstanding shares of the Series A Preferred Stock on April 1, 2024 at the liquidation preference of $25.00 per share.

- The previously announced agreement to sell several Illinois bank branches was completed on January 26, 2024, resulting in a gain of $715,000.

- On March 27, 2024, the Company executed a credit default swap on a $543.5 million pool of its multi-family mortgage loans, to provide credit protection for the loan pool and reduce risk-based capital requirements.

- The volume of warehouse loans funded during the three months ended September 30, 2023 March 31, 2024 amounted to $10.8 billion $7.9 billion, an increase of $2.0 billion $2.5 billion, or 23% 46%, compared to the three months ended September 30, 2022 March 31, 2023. This compared to the 10% 13% industry decrease increase in single-family residential loan volumes for the three months ended September 30, March 31, 2024 to the same period in 2023, according to an estimate of industry volume by the Mortgage Bankers Association.

- The total volume of loans originated and acquired through our multi-family business was $1.4 billion, a decrease of $869.4 million, or 39%, compared to $2.2 billion for the three months ended September 30, 2022. Many of these loans are bridge loans housed in our banking segment while borrowers await conversion to permanent financing. The volume of bridge loans was $785.8 million, a decrease of $705.7 million, or 47%, compared to $1.5 billion for the three months ended September 30, 2022. The volume of loans originated and acquired for sale in the secondary market through our multi-family business increased by $55.1 million $138.6 million, or 15% 122%, to $422.1 million $252.7 million, compared to $367.0 million $114.1 million for the three months ended September 30, 2022 March 31, 2023.

Business Overview

We are a diversified bank holding company headquartered in Carmel, Indiana and registered under the Bank Holding Company Act of 1956, as amended. We currently operate in multiple business segments, including Multi-family Mortgage Banking that offers multi-family housing and healthcare facility financing and servicing, as well as syndicated low-income housing tax credit and debt funds; Mortgage Warehousing that offers mortgage warehouse financing, commercial loans, and deposit services; and Banking that offers portfolio lending for multi-family and healthcare facility loans, retail and correspondent residential mortgage banking, agricultural lending, Small Business Administration ("SBA") lending, and traditional community banking.

Our business consists primarily of funding fixed rate, low risk, multi-family, residential and SBA loans meeting underwriting standards of government programs under an originate to sell model, and retaining adjustable rate loans as held for investment to reduce interest rate risk. The gain on sale of these loans and servicing fees contribute to noninterest income. The funding source is primarily from mortgage custodial, municipal, retail, commercial, and brokered deposits, and short-term borrowing. We believe that the combination of net interest income and noninterest income from the sale of low risk profile assets results in lower than industry charge-offs and a lower expense base which serves to maximize net income and higher than industry shareholder return.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under the current circumstances. These estimates form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and judgments that management believes have the most effect on its reported financial position and results of operations are set forth within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023. There have been no

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significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since those reported for the year ended December 31, 2022 December 31, 2023.

Financial Condition

As of September 30, 2023 March 31, 2024, we had approximately $16.5 billion $17.8 billion in total assets, $13.0 billion $14.0 billion in deposits, and $1.6 billion $1.8 billion in total shareholders' equity. Total assets as of September 30, 2023 March 31, 2024 included approximately $407.2 million $508.8 million of cash and cash equivalents, $3.5 billion of loans held for sale and $9.9 billion $10.7 billion of loans receivable, net of ACL-loans.

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ACL-Loans. Assets also included $476.0 million $142.6 million of mortgage loans in the process of securitization that represent pre-sold multi-family rental real estate loan originations in primarily Government National Mortgage Association ("Ginnie Mae"), Federal National Mortgage Association ("Fannie Mae"), and Federal Home Loan Mortgage Corporation ("Freddie Mac"), or Government National Mortgage Association ("GNMA") mortgage backed mortgage-backed securities pending settlements that typically occur within 30 days. There was were also $1.0 billion $1.2 billion in securities classified as held to maturity that were primarily acquired in conjunction with the securitization of loans that the Company originated. maturity. Additionally, we had $624.6 million $1.1 billion in securities available for sale that, the majority of which were acquired from a warehouse customer, and others are typically match funded with related custodial deposits or required to collateralize our credit-linked notes. There are some restrictions on the types of securities we hold, particularly for those that as these are funded by certain custodial deposits where we set the cost of deposits based on the yield of the related securities. Other assets at March 31, 2024 were $360.4 million which primarily represents low-income housing tax credits and prepaid assets associated with the April 1, 2024 redemption of Series A Preferred Stock. Servicing rights at September 30, 2023 March 31, 2024 were $162.1 million $172.2 million based on the fair value of the loan servicing, which are primarily GNMA Ginnie Mae multi-family servicing rights with 10-year call protection.

Comparison of Financial Condition at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023

Total Assets. Total assets of $16.5 billion $17.8 billion at September 30, 2023 March 31, 2024 increased $3.9 billion $870.1 million, or 31% 5%, compared to $12.6 billion $17.0 billion at December 31, 2022. December 31, 2023. The increase was due primarily to significant growth in the warehouse, healthcare, commercial lines of credit collateralized by mortgage servicing rights, and multi-family and mortgage warehouse loan portfolios. portfolios as well as loans held for sale.

Cash and Cash Equivalents. Cash and cash equivalents of $407.2 million $508.8 million at September 30, 2023 increased $181.1 million March 31, 2024 decreased $75.7 million, or 80% 13%, compared to December 31, 2022 December 31, 2023. The 80% increase 13% decrease reflected higher liquidity $52 million in cash delivered to fund anticipated loan growth. our Transfer Agent for the April 1, 2024 redemption of Series A Preferred Stock described in *Note 14: Preferred Stock* and *Note 17: Subsequent Events*. Included in cash equivalents was $52.2 million $39.2 million in restricted cash associated with the March 2023 issuance of senior credit linked notes described in *Note 1: Basis of Presentation* and *Note 11: Borrowings. Borrowings*.

Mortgage Loans in Process of Securitization. Mortgage loans in process of securitization of $476.0 million $142.6 million at September 30, 2023 March 31, 2024 increased $321.9 million $32.0 million, or 209% 29%, compared to December 31, 2022 $110.6 million at December 31, 2023. These represent loans that our banking subsidiary, Merchants Bank, has funded and are held pending settlement, primarily as GNMA or other agency Ginnie Mae, Fannie Mae, and Freddie Mac mortgage-backed securities with a firm investor commitment to purchase the securities. The 209% 29% increase was primarily due to an increase in the a higher origination volume of loans that had not yet settled with government agencies.

Securities Available for Sale. Securities available for sale of $624.6 million $1.1 billion at September 30, 2023 increased $301.2 million March 31, 2024 decreased $52.4 million, or 93% 5%, compared to December 31, 2022 December 31, 2023. The increase decrease in securities available for sale securities was primarily due to purchases of $631.7 million, partially offset by $246.4 in calls, maturities, repayments, sales and other adjustments, partially offset by purchases of $330.5 million $194.0 million during the period. The purchases

Included in securities available for sale were primarily related $700.6 million of investments for which a fair value option was elected. Fair value option securities represent securities which the Company has elected to securities carry at fair value and are separately identified on the unaudited condensed consolidated balance sheets with protections against any loss changes in the fair value. value recognized in earnings as they occur.

As of September 30, 2023 March 31, 2024, Accumulated Other Comprehensive Losses (“AOCL”) of $4.8 million losses, $1.2 million, related to securities available for sale, decreased $5.7 million improved $1.3 million, or 55% 53%, compared to losses of $10.5 million $2.5 million at December 31, 2022 December 31, 2023. The $4.8 million $1.2

million of AOCL losses as of September 30, 2023 March 31, 2024 represented less than 1% of total equity and less than 1% of total securities available for sale.

Securities Held to Maturity. Securities held to maturity of $1.0 billion $1.2 billion at September 30, 2023 March 31, 2024 decreased $106.3 million $29.1 million, or 9% 2%, compared to $1.1 billion at December 31, 2022. December 31, 2023. The decrease was primarily due to purchases remittances of $9.8 million offset by calls, maturities and repayments of loan payments underlying the securities totaling $116.1 million during the period. These securities were acquired in 2022 and 2023 as part of securitization transactions.

Loans Held for Sale. Loans held for sale comprised primarily of single-family residential real estate loan participations that meet Fannie Mae, Freddie Mac, or GNMA eligibility, of $3.5 billion at September 30, 2023 March 31, 2024 increased $566.5 million $358.4 million, or 19% 11%, compared to $2.9 billion $3.1 billion at December 31, 2022 December 31, 2023. The increase in loans held for sale was due primarily to an increase in warehouse participations, partially offset by loans associated with credit linked notes as we experienced higher volume. Loans held for sale are comprised primarily of single-family residential real estate loan participations that were transferred to loans receivable during the first quarter meet Fannie Mae, Freddie Mac, or Ginnie Mae eligibility. It also includes a growing portfolio of 2023.

multi-family loans.

Loans Receivable. Receivable, Net. Loans receivable, net, of $10.7 billion at March 31, 2024, which are comprised of loans held for investment, of $9.9 billion at September 30, 2023 increased $2.5 billion $562.7 million, or 33% 6%, compared to $7.4 billion $10.1 billion at December 31, 2022. December 31, 2023. The increase in net loans was comprised primarily of:

- an increase of $614.2 million $390.5 million, or 38% 52%, in mortgage warehouse repurchase agreements, to $1.1 billion at March 31, 2024,
- an increase of $108.0 million, or 5%, in healthcare financing loans, to $2.2 billion $2.5 billion at September 30, 2023 March 31, 2024,
- an increase of $581.4 million $90.4 million, or 59%, in commercial and commercial real estate loans, to $1.6 billion at September 30, 2023,
- an increase of $573.8 million, or 18% 2%, in multi-family financing loans, to $3.7 billion $4.1 billion at September 30, 2023 March 31, 2024,
- an increase of $557.9 million, or 120%, in mortgage warehouse lines of credit, to $1.0 billion at September 30, 2023, and

- an increase of $180.5 million, or 15%, in residential real estate loans, to $1.4 billion at September 30, 2023.

The $614.2 million $390.5 million increase in mortgage warehouse lines of credit was due to higher loan volume from increased sales efforts and market exits of competitors.

The $108.0 million increase in healthcare financing was due to increased volume associated with the credit link notes transaction where loans were transferred from loans held for sale during the first quarter of 2023. higher loan originations.

The $581.4 million increase in commercial and commercial real estate was primarily due to higher revolving lines of credit on collateralized mortgage servicing rights during the period.

The $573.8 million $90.4 million increase in multi-family financing was due to higher origination volume for construction, bridge and other loans generated through our multi-family segment that will remain on our balance sheet until they convert to permanent financing or are otherwise paid off over an average of one to three years.

The $557.9 million increase in mortgage warehouse lines of credit was due to higher loan volume from increased sales efforts and market exits of several competitors.

The $180.5 million increase in residential real estate loans was primarily due an increase in All-in-One® first-lien home equity line of credit.

As of September 30, 2023 March 31, 2024, approximately 94% of the total net loans at Merchants Bank reprice within three months, which reduces the risk of market rate increases.

Allowance for Credit Losses on Loans ("ACL-Loans"). The ACL-Loans of $66.9 million $75.7 million at September 30, 2023 March 31, 2024 increased $22.9 million $4.0 million, or 6%, compared to $44.0 million at December 31, 2022. The increase was December 31, 2023, primarily due to loan reflecting increases associated with growth in the period, multi-family and healthcare portfolios, as well as credit events changes in specific reserves and increases in qualitative loss factors and forecasted loss rates to reflect changes in industry conditions that were reported during the three months ended September 30, 2023. conditions.

Also influencing the overall level of the ACL-Loans is our differentiated strategy to typically hold loans with shorter durations and to maintain strict agency underwriting standards that enable us to sell the majority of our loans to under government agencies. programs.

Goodwill. Goodwill of $8.0 million at March 31, 2024 decreased $7.8 million, or 49%, compared to $15.8 million at September 30, 2023 remained unchanged compared December 31, 2023. The goodwill associated with FMBI was eliminated upon the sale of their branches to December 31, unaffiliated third parties on January 26, 2024 2022. At this time, we do not believe there exists any impairment to goodwill or intangible assets..

Servicing Rights. Servicing rights of $162.1 million $172.2 million at September 30, 2023 March 31, 2024 increased $15.9 million $13.7 million, or 11% 9%, compared to $146.2 million $158.5 million at December 31, 2022 December 31, 2023. During the nine three months ended September 30, 2023 March 31, 2024, originated servicing of $9.2 million and a positive fair market value

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adjustment of $12.2 million $14.0 million and originated or purchased servicing of $2.2 million were partially offset by paydowns of $5.4 million $2.4 million. The $14.0 million positive fair market value adjustment reflected $13.2 million for multi-family mortgages and $0.8 million for single-family and SBA mortgages during the three months ended March 31, 2024.

Servicing rights are recognized in connection with sales of loans when we retain servicing of the sold loans. loans, as well as upon purchases of loan servicing portfolios. The servicing rights are recorded and carried at fair value. The fair value increase recorded during the nine three months ended September 30, 2023 March 31, 2024 was driven by higher loan balances of mortgages serviced and higher interest rates that impacted fair market value adjustments. The value of servicing rights generally increases in rising interest rate

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environments which impact the value of escrow deposits, and declines in falling interest rate environments due to expected prepayments. prepayments and earnings rates on escrow deposits.

Other Assets and & Receivables. Other assets and receivables of $241.3 million $360.4 million at September 30, 2023 March 31, 2024 increased $83.8 million by $54.1 million, or 53% 18%, compared to December 31, 2022 December 31, 2023. The 53% increase in other assets and receivables was primarily due to $52.0 million prepaid funding for the acquisition of low-income housing tax credit investments. April 1, 2024, Series A Preferred Stock redemption.

Deposits. Deposits of $13.0 billion $14.0 billion at September 30, 2023 increased $2.9 billion March 31, 2024 decreased $85.8 million, or 29% 1%, compared to $10.1 billion at December 31, 2022 $14.1 billion December 31, 2023. The 29% increase in total deposits decrease was primarily due to a $2.1 billion $1.1 billion decrease in brokered demand deposit accounts partially offset by an increase of $885.6 million in brokered certificate of deposits. Total demand deposits decreased $900.9 million, partially offset by an increase in total certificates of deposit a $857.4 million increase in demand deposits of $790.1 million and an increase in total savings deposits of $21.7 million in savings deposits. $24.9 million. As of September 30, 2023, March 31, 2024, approximately 88% of the total deposits at Merchants Bank reprice within three months.

Uninsured deposits totaled approximately $2 billion as of September 30, 2023, representing less than 20% of total deposits. Since 2018, the Company has offered its customers an opportunity to insure balances in excess of $250,000 through our insured cash sweep program that extends FDIC protection up to $100 million. The balance of deposits in this program was $1.8 billion as of September 30, 2023.

Core deposits increased by $1.3 billion $132.0 million, or 18% 2%, to $8.6 billion $8.2 billion at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023. Core deposits represented 66% 59% of total deposits at September 30, 2023 March 31, 2024 compared to 73% 58% of total deposits at December 31, 2022 December 31, 2023.

We increased have decreased our use of brokered deposits by $1.6 billion $217.8 million, or 59% 4%, to $4.4 billion $5.8 billion at September 30, 2023 March 31, 2024 compared to December 31, 2022 $6.0 billion at December 31, 2023. Brokered deposits represented 34% 41% of total deposits at September 30, 2023 March 31, 2024, compared to 27% 42% of total deposits at December 31, 2022 December 31, 2023.

- Brokered certificates of deposit accounts of $4.4 billion at September 30, 2023 increased by $1.7 billion, or 64%, compared to December 31, 2022.
- Brokered demand deposit accounts of $0.3 million at September 30, 2023 increased by $0.3 million, compared to December 31, 2022.
- Brokered savings deposits accounts of $6.7 million at September 30, 2023 decreased $74.8 million, compared to December 31, 2022.

As of September 30, 2023 March 31, 2024, brokered certificates of deposit had a weighted average remaining duration of 49 57 days.

- Brokered demand deposit accounts decreased $1.1 billion, or 73%, to $400.2 million at March 31, 2024 compared to December 31, 2023.
- Brokered certificates of deposit accounts increased $885.6 million, or 20%, to $5.4 billion at March 31, 2024 compared to December 31, 2023.

Although our brokered deposits are short-term in nature, they may be more rate sensitive compared to other sources of funding. In the future, those depositors may not replace their brokered deposits with us as they mature, or we may have to pay a higher rate of interest to keep those deposits or to replace them with other deposits or other sources of funds. Not being able to maintain or replace those deposits as they mature would adversely affect our liquidity. Additionally, if Merchants Bank does not maintain its well-capitalized position, it may not accept or renew any brokered deposits without a waiver granted by the Federal Deposit Insurance Corporation ("FDIC").

Compared to December 31, 2022December 31, 2023, interest-bearing deposits increased $3.0 billion$114.4 million, or 31%1%, to $12.7$13.7 billion at September 30, 2023March 31, 2024, and noninterest-bearing deposits decreased $39.0 million$200.2 million, or 12%38%, to $287.8$319.9 million at September 30, 2023March 31, 2024.

Uninsured deposits totaled approximately $2.1 billion as of March 31, 2024, representing less than 15% of total deposits. Since 2018, the Company has offered its customers an opportunity to insure balances in excess of $250,000 through our Insured Cash Sweep program that extends FDIC protection up to $100 million. The balance of deposits in this program was $1.7 billion as of March 31, 2024.

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Borrowings. Borrowings of $1.7 billion$1.8 billion at September 30, 2023, an increase of $723.7 millionMarch 31, 2024 increased $871.9 million, or 78%90%, compared to December 31, 2022$964.1 million at December 31, 2023. The increase was primarily due to additional borrowings froman increase of $654.9 million in FHLB advances, an increase of $50.0 million in the FHLBusage of the Federal Reserve's discount window and Federal Reserve, along with the issuancean increase of senior credit linked notes described$175.0 million in *Note 11: Borrowings.*American Financial Exchange ("AFX") borrowings. Depending on rates and timing, borrowing can be a more effective liquidity management alternative than utilizing brokered certificates of deposits. The Company primarily utilizes borrowing facilities from the FHLB, the Federal Reserve's discount window, and the American Financial Exchange ("AFX").AFX. See *Note 11: Borrowings* for further information.

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The Company continues to have significant borrowing capacity based on available collateral. As of September 30, 2023March 31, 2024, unused lines of credit totaled $5.4 billion$5.6 billion, compared to $3.1 billion$6.0 billion at December 31, 2022December 31, 2023.

Other Liabilities. Other liabilities of $183.1 million at September 30, 2023 increased $49.0 million, or 37%, compared to $134.1 million at December 31, 2022. The 37% increase in other liabilities was primarily due to interest payable and unfunded commitments for low-income housing tax credit investments.

Total Shareholders' Equity. Total shareholders' equity was $1.8 billion as of $1.6 billion at September 30, 2023, increased $173.0 million, or 12%,March 31, 2024. The $75.4 million increase compared to $1.5 billion as of December 31, 2022. The $173.0 million increaseDecember 31, 2023 resulted primarily from the net income of $201.8 million$87.1 million, which was partially offset by dividends paid on common and preferred shares of $36.4 million$12.6 million during the period.

Asset Quality

Total nonperforming loans (nonaccrual and greater than 90 days latepast due but still accruing) were $60.2 million$131.8 million, or 0.60%1.22% of loans receivable at March 31, 2024, compared to $82.0 million, or 0.80%, of total loans at September 30, 2023, compared to $26.7 millionDecember 31, 2023 and $65.3 million, or 0.36%, of total loans at December 31, 2022 and $26.6 million, or 0.38%0.76%, at September 30, 2022.March 31, 2023. The increase in nonperformingnon-performing loans compared to both periodsDecember 31, 2023 was primarily due to 3three customers while the remainderwith delinquent payments of our loan portfolio continued to generally perform as90 days or more. As of March 31, 2024, only 13 customers were classified in nonaccrual status and eight were delinquent by 90 days or more, but still accruing interest, with full payment expected.

As a percentage of nonperforming loans, the ACL-Loans was 111% 57% at September 30, 2023 March 31, 2024 compared to 165% 87% at December 31, 2022 December 31, 2023 and 147% 79% at September 30, 2022 March 31, 2023. The decrease in percentage was changes compared to both periods were primarily due to an increase in nonperforming loans. While this percentage decreased compared to both periods, the increase in nonperforming loans was primarily related to increases in the nonaccrual classification and have all been individually evaluated for impairment.

Total loans greater than 30 days past due were $125.4 million $188.7 million at September 30, 2023 March 31, 2024, $39.8 million $183.5 million at December 31, 2022 December 31, 2023, and $26.6 million $83.5 million at September 30, 2022. Since March 31, 2023. The increase compared to March 31, 2023 was due to the majority delinquency of loans to six multi-family customers have variable rates, the rapid increase in interest rates over the last several quarters has negatively impacted borrowers by increasing their required payment amounts. and four healthcare customers.

Special Mention (including Watch) (Watch) loans were $322.0 million $232.1 million at September 30, 2023 March 31, 2024, compared to $137.8 million $191.3 million at December 31, 2022 and $142.8 million at September 30, 2022. December 31, 2023. The increase to both periods was primarily due to the increase in higher interest rates for that negatively impact our borrowers. borrowers' ability to make higher required payments.

During the three months ended September 30, 2023 March 31, 2024, there were $21,000 was one charge-off of charge-offs a commercial loan for $925,000 and $31,000 $1,000 of recoveries, compared to $279,000 of no charge-offs and $92,000 $7,000 of recoveries for the three months ended September 30, 2022.

For the nine months ended September 30, 2023, there were $9.6 million of charge-offs, primarily related to one customer, and $40,000 of recoveries, compared to $1.3 million of charge-offs and $750,000 of recoveries for the nine months ended September 30, 2022 March 31, 2023.

Comparison of Operating Results for the Three Months Ended September 30, 2023 March 31, 2024 and 2022 2023

General. Net income of $81.5 million $87.1 million for the three months ended September 30, 2023 March 31, 2024 increased by $23.0 million $32.1 million, or 39% 58%, compared to with $55.0 million for the three months ended September 30, 2022. The increase was March 31, 2023, primarily driven by a $32.1 million $26.4 million, or 38% 26%, increase in net interest income and a $6.9 million $17.0 million, or 24% 722%, increase in loan servicing fees that was partially offset by a $14.1 million, or 41%, increase in noninterest income. The increases were partially offset by an $8.0 million, or 23%, increase in noninterest expense and expense. Results for the three months ended March 31, 2024 included a $6.2 million, or 33%, increase in provision $14.0 million positive fair market value adjustment to servicing rights compared to a $2.9 million negative adjustment for income tax. the three months ended March 31, 2023.

Net Interest Income. Net interest income of $117.4 million $127.1 million for the three months ended September 30, 2023 March 31, 2024 increased $32.1 million $26.4 million, or 38% 26%, compared to with $100.7 million for the three months ended September 30, 2022 March 31, 2023. The 38% increase reflected a $162.6 million, or 121%, increase in interest income from higher average balances and yields on loans and loans held for sale, as well as higher average yields and average loan balances as well as of securities available for sale, which were partially offset by higher average balances and interest rates on

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average balances of securities held to maturity. The increases were partially offset by a $130.5 million, or 268%, increase in interest expense from higher rates and average balances on deposits, as well as higher rates on borrowings that were primarily related to the credit linked notes issued by the Company in March 2023. borrowings. The interest rate spread of 2.44% 2.58% for the three months ended September 30, 2023 March 31, 2024 decreased 33 18 basis points compared to 2.77% in 2.76% for the three months ended September 30, 2022. March 31, 2023.

Our net interest margin decreased 6 13 basis points, to 2.99% 3.14%, for the three months ended September 30, 2023 from 3.05% March 31, 2024 compared to 3.27% for the three months ended September 30, 2022. March 31, 2023.

Interest Income. Interest income of $296.7 million $314.2 million for the three months ended September 30, 2023 March 31, 2024 increased $162.6 million $102.9 million, or 121% 49%, compared to $134.1 million with $211.3 million for the three months ended September 30, 2022 March 31, 2023. This increase was primarily attributable to reflected an increase in both higher average yields and average balances and yields of loans and loans held for sale, as well as higher average balances in securities available for sale and held to maturity. The higher yields were in response to higher interest rates set by the Federal Reserve.

Interest income of $272.0 million for the three months ended March 31, 2024 for loans and loans held for sale increased $82.5 million, or 44%, compared to the three months ended March 31, 2023. The average balance of loans, including loans held for sale, during of $13.5 billion increased $2.9 billion, or 27%, compared $10.6 billion for the three months ended September 30, 2023 increased $3.2 billion, or 31%, to $13.4 billion compared to the three months ended September 30, 2022. March 31, 2023. The average yield on loans increased 289 86 basis points to 7.89% 8.11%, for the three months ended September 30, 2023 March 31, 2024, compared to 5.00% 7.25% for the three months ended September 30, 2022 March 31, 2023. The increase in average balances of loans and loans held for sale was primarily due to increases in the warehouse, multi-family, and healthcare commercial lines of credit collateralize by mortgage servicing rights real estate and multi-family portfolios, but all loan portfolios contributed to the growth loans, as well as loans held for sale, during the period.

Interest income of $14.4 million for the three months ended March 31, 2024 on securities available for sale increased $12.1 million, or 535%, compared to the three months ended March 31, 2023. The average balance of securities available for sale of $1.1 billion increased $639.5 million, or 144%, compared to $445.6 million for the three months ended March 31, 2023. The average yield increased 327 basis points to 5.33%, for the three months ended March 31, 2024 compared to 2.06% for the three months ended March 31, 2023. The increase in average balances of securities available for sale was primarily associated with the acquisition of certain securities in from a warehouse customer in December 2023 that provide protective put options and interest rate floor derivatives to prevent losses in value.

Interest income of $20.5 million for the three months ended March 31, 2024 for securities held to maturity increased $4.8 million, or 30%, compared to the three months ended March 31, 2023. The average balance of securities held to for maturity during the three months ended September 30, 2023 of $1.2 billion increased $941.7 million $81.4 million, or 7%, compared to $1.1 billion compared to the three months ended September 30, 2022. The average yield on securities held to maturity increased 274 basis points, to 6.65% for the three months ended September 30, 2023, compared to 3.91% March 31, 2023. The average yield increased 117 basis points 6.90% for the three months ended September 30, 2022 March 31, 2024 compared to 5.73% for the three months ended March 31, 2023. The increase in average balance of securities held to maturity was primarily related to held to maturity securities acquired as part of loan securitizations that the Company originated. securitizations.

The average balance Interest income of securities available for sale increased $324.8 million, or 98%, to $656.6 million $5.5 million for the three months ended September 30, 2023 March 31, 2024 on interest-bearing deposits and other increased $3.4 million, or 155%, compared to the three months ended September 30, 2022 March 31, 2023. The average yield increased 316 basis points, to 3.74% for the three months ended September 30, 2023, compared to 0.58% for the three months ended September 30, 2022.

The average balance of interest-earning deposits and other of $346.2 million increased $48.0 million $161.7 million, or 23% 88%, compared to $259.6 million $184.5 million for the three months ended September 30, 2023 from the three months ended September 30, 2022, while the March 31, 2023. The average yield increased 338 166 basis points to 5.99% 6.44%, for the three months ended September 30, 2023, March 31, 2024 compared to 2.61% 4.78% for the three months ended September 30, 2022.

The average balance of mortgage loans in process of securitization decreased $26.5 million, or 11%, to $208.8 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, while the average yield increased 126 basis points, to 4.91% for the three months ended September 30, 2023, compared to 3.65% for the three months ended September 30, 2022 March 31, 2023.

Interest Expense. Total interest expense of $179.2 million $187.1 for the three months ended September 30, 2023 March 31, 2024 increased $130.5 million $76.5 million, or 268% 69%, compared to $48.7 million with $110.6 million for the three months ended September 30, 2022 March 31, 2023.

Interest expense on deposits increased $117.9 million $66.6 million, or 262% 64%, to $162.9 million $171.0 million for the three months ended September 30, 2023 March 31, 2024, from $45.0 million $104.4 million for the three months ended September 30, 2022 March 31, 2023. The increase was primarily due to higher rates average balances and rates on certificates of deposit and interest-bearing checking, and money market accounts. The as well as higher rates on our borrowings.

Interest expense of $76.5 million for the three months ended March 31, 2024 for certificate of deposit accounts increased $41.5 million, or 119%, compared to $34.9 million for the three months ended March 31, 2023. The average balance of certificates of deposits were in response was $5.7 billion for the three months ended March 31, 2024, which increased $2.4 billion, or 71%, compared to higher the three months ended March 31, 2023. The average interest rates set by the Federal Reserve. rate on certificates of deposits

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The average balance of certificates of deposit of $5.3 billion was 5.40% for the three months ended September 30, 2023 March 31, 2024, which was a 114 basis point increase compared to 4.26% for the three months ended March 31, 2023.

Interest expense of $60.7 million for the three months ended March 31, 2024 for interest-bearing checking accounts increased $3.2 billion $20.0 million, or 159% 49%, compared to the three months ended September 30, 2022 March 31, 2023. The average rate on certificates of deposit was 5.34% for the three months ended September 30, 2023, which was a 343 basis point increase compared to 1.91% for three months ended September 30, 2022.

The average balance of interest-bearing checking accounts of $4.9 billion was $5.1 billion for the three months ended September 30, 2023 March 31, 2024, which increased $675.5 million $1.0 billion, or 16% 25%, compared to $4.2 billion for the three months ended September 30, 2022 March 31, 2023. The average yield of interest-bearing checking accounts was 4.76% 4.81% for the three months ended September 30, 2023 March 31, 2024, which was a 269 74 basis point increase compared to 2.07% for three months ended September 30, 2022.

The average balance of money market accounts of $2.8 billion 4.07% for the three months ended September 30, 2023 increased $275.0, or 11%, compared to $2.5 billion March 31, 2023.

Interest expense on borrowings of $16.1 million for the three months ended September 30, 2022. The average yield of money market accounts was 4.71% for March 31, 2024 increased $9.9 million, or 161%, compared to $6.2 million the three months ended September 30, 2023, which was a 265 basis point increase compared to 2.06% for three months ended September 30, 2022.

Interest expense on borrowings increased $12.6 million, or 338%, to $16.3 million for the three months ended September 30, 2023 from $3.7 million for the three months ended September 30, 2022 March 31, 2023. The increase reflected was due primarily to a 659 386 basis points point increase in the average cost of borrowings to 9.10% 9.03%, compared to 2.51% 5.17% for the three months ended September 30, 2022. The increase was primarily related to the credit linked notes issued by the Company in 2023. Also contributing to the increase in borrowings was an increase of $123.4 million, or 21%, in the average balance of borrowings $711.9 million compared to the three months ended September 30, 2022 March 31, 2023. Also included in borrowings, our warehouse structured financing agreements provide for an additional interest payments payment for a portion of the earnings generated. As a result, the cost of borrowings increased from a base rate of 8.50% and 4.82%, to an effective rate of 9.03% and 5.17% for the three months ended March 31, 2024 and 2023, respectively.

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The following table presents, for the periods indicated, information about (i) average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Yields have been calculated on a pre-tax basis. Nonaccrual loans are included in loans and loans held for sale.

Three Months Ended September 30,		Three Months Ended March 31,	
2023	2022	2024	2023

	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Inter Inco Expe
		(Dollars in thousands)						(Dollars in thousands)			
Assets:											
Interest-bearing deposits, and other	$ 259,630	$ 3,923	5.99 %	$ 211,653	$ 1,394	2.61 %	$ 346,150	$ 5,545	6.44 %	$ 184,470	$ 2,
Securities available for sale - taxable	656,561	6,182	3.74 %	331,796	485	0.58 %	1,085,114	14,388	5.33 %	445,614	2,
Securities held to maturity	1,040,070	17,427	6.65 %	98,363	970	3.91 %	1,196,633	20,522	6.90 %	1,115,243	15,
Mortgage loans in process of securitization	208,767	2,583	4.91 %	235,230	2,162	3.65 %	137,890	1,720	5.02 %	159,333	1,
Loans and loans held for sale	13,399,854	266,561	7.89 %	10,245,294	129,101	5.00 %	13,494,961	271,998	8.11 %	10,595,669	189,
Total interest-earning assets	15,564,882	296,676	7.56 %	11,122,336	134,112	4.78 %	16,260,748	314,173	7.77 %	12,500,329	211,
Allowance for credit losses on loans	(63,449)			(39,325)			(71,544)			(45,190)	
Noninterest-earning assets	529,582			354,794			603,868			430,596	
Total assets	$ 16,031,015			$ 11,437,805			$ 16,793,072			$ 12,885,735	
Liabilities/Equity:											
Interest-bearing checking	$ 4,882,727	$ 58,642	4.76 %	$ 4,207,217	$ 21,980	2.07 %	$ 5,070,393	$ 60,688	4.81 %	$ 4,052,081	$ 40,
Savings deposits	241,861	340	0.56 %	239,262	162	0.27 %	201,860	219	0.44 %	237,289	
Money market	2,798,325	33,235	4.71 %	2,523,315	13,094	2.06 %	2,817,382	33,644	4.80 %	2,848,500	28,
Certificates of deposit	5,255,573	70,689	5.34 %	2,030,152	9,766	1.91 %	5,694,933	76,471	5.40 %	3,322,991	34,
Total interest-bearing deposits	13,178,486	162,906	4.90 %	8,999,946	45,002	1.98 %	13,784,568	171,022	4.99 %	10,460,861	104,
Borrowings	711,948	16,334	9.10 %	588,582	3,725	2.51 %	716,853	16,095	9.03 %	482,723	6,

Total interest-bearing liabilities	13,890,434	179,240	5.12 %	9,588,528	48,727	2.02 %	14,501,421	187,117	5.19 %	10,943,584	110,
Noninterest-bearing deposits	333,155			474,925			332,172			304,119	
Noninterest-bearing liabilities	199,647			107,192			211,819			141,422	
Total liabilities	14,423,236			10,170,645			15,045,412			11,389,125	
Equity	1,607,779			1,267,160			1,747,660			1,496,610	
Total liabilities and equity	$ 16,031,015			$ 11,437,805			$ 16,793,072			$ 12,885,735	
Net interest income		$117,436			$ 85,385			$127,056			$100,
Interest rate spread			2.44 %			2.77 %			2.58 %		
Net interest-earning assets	$ 1,674,448			$ 1,533,808			$ 1,759,327			$ 1,556,745	
Net interest margin			2.99 %			3.05 %			3.14 %		
Average interest-earning assets to average interest-bearing liabilities			112.05 %			116.00 %			112.13 %		

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in weighted average interest rates. The following table sets forth the effects of changing rates and volumes on our net interest income during the periods shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Changes applicable to both volume and rate have been allocated to volume. Yields have been calculated on a pre-tax basis.

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The following table summarizes the increases and decreases in interest income and interest expense resulting from changes in average balances (volume) and changes in average interest rates:

	Three Months Ended September 30, 2023 compared to September 30, 2022			Three Months Ended March 31, 2024 compared to March 31, 2023		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(Dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Interest-bearing deposits, and other	$ 316	$ 2,213	$ 2,529	$ 1,907	$ 1,462	$ 3,369
Securities available for sale - taxable	475	5,222	5,697	3,252	8,870	12,122
Securities held to maturity	9,287	7,170	16,457	1,150	3,618	4,768
Mortgage loans in process of securitization	(243)	664	421	(222)	294	72
Loans and loans held for sale	39,751	97,709	137,460	51,839	30,709	82,548
Total interest income	49,586	112,978	162,564	57,926	44,953	102,879
Interest expense						

Deposits						
Interest-bearing checking	3,529	33,133	36,662	10,215	9,826	20,041
Savings deposits	2	176	178	(40)	(6)	(46)
Money market deposits	1,427	18,714	20,141	(313)	5,349	5,036
Certificates of deposit	15,516	45,407	60,923	24,927	16,622	41,549
Total Deposits	20,474	97,430	117,904	34,789	31,791	66,580
Borrowings	781	11,828	12,609	2,988	6,948	9,936
Total interest expense	21,255	109,258	130,513	37,777	38,739	76,516
Net interest income	$ 28,331	$ 3,720	$ 32,051	$20,149	$ 6,214	$ 26,363

Provision for Credit Losses. We recorded a total provision for credit losses of $4.0 million $4.7 million for the three months ended September 30, 2023 March 31, 2024, an increase a decrease of $1.8 million $2.1 million, compared to or 31%, over the three months ended September 30, 2022 March 31, 2023. The increase was primarily due to loan growth in the period and increases in qualitative factors and forecasted loss rates to reflect changes in industry conditions.

The $4.0 million total $4.7 million provision for credit losses consisted of $3.9 million $4.9 million for the ACL-Loans and $0.1 million a negative provision of $0.2 million for the ACL-OBCE's. The ACL-Loans was $66.9 million $75.7 million, or 0.67%, 0.70% of total loans, at September 30, 2023 March 31, 2024, compared to $44.0 million $71.8 million, or 0.59%, 0.70% of total loans, at December 31, 2022 December 31, 2023, and $39.0 million $51.8 million, or 0.56% 0.60%, at September 30, 2022 March 31, 2023. The increases in the ACL-Loans compared to both prior periods reflected increases associated with loan growth in the multi-family and healthcare portfolios, as well as changes in specific reserves and loss factors to reflect industry conditions. Additional details are provided in the ACL-Loans portion of the Comparison of Financial Condition at March 31, 2024 and December 31, 2023 and in *Note 4: Loans and Allowance for Credit Losses on Loans.*

Noninterest Income. Noninterest income of $36.1 million $40.9 million for the three months ended September 30, 2023 March 31, 2024 increased $6.9 million $26.6 million, or 24% 187%, compared to $29.2 million $14.3 million for the three months ended September 30, 2022 March 31, 2023. The increase was primarily due to a $9.2 million $17.0 million, or 113% 722%, increase in loan servicing fees, that were partially offset by a $4.1 million, or 338%, increase in syndication and asset management fees, a $3.0 million, or 103%, increase in other income and a $2.6 million, or 19% 39%, decrease increase in gain on sale of loans.

Loan servicing fees included a $14.0 million positive fair market value adjustment to servicing rights for the three months ended March 31, 2024, compared to a $2.9 million negative adjustment to fair value of servicing rights for the three months ended March 31, 2023. The $2.6 million, or 39%, increase in gain on sale of loans associated with a business mix shift in resulted from higher interest rates across the industry that have led lower multi-family lending, from volumes sold in the secondary market towards those maintained market. The $3.0 million increase in other income included a $2.3 million gain on the balance sheet. derivatives for interest rate protection.

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A summary of the gain on sale of loans for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 is below:

	For the Three Months Ended March 31,	
	2024	2023

Gain on Sale of Loans Three Months Ended	
September 30, 2023	September 30, 2022

	(in thousands)		(in thousands)	
Loan Type				
Multi-family	$ 8,616	$ 12,002	$ 8,423	$ 4,920
Single-family	951	138	280	277
Small Business Association (SBA)	1,191	1,214	653	1,536
Total	$ 10,758	$ 13,354	$ 9,356	$ 6,733

Loan servicing fees included a $11.6 million positive fair market value adjustment to servicing rights***Noninterest Expense.*** Noninterest expense of $48.9 million for the three months ended September 30, 2023 March 31, 2024 increased $14.1 million, or 41%, compared to a $4.6 million positive adjustment to fair value of servicing rights $34.8 million for the three months ended September 30, 2022.

Noninterest Expense. Noninterest expense of $42.9 million for the three months ended September 30, 2023 increased $8.0 million, or 23%, compared to $35.0 million for the three months ended September 30, 2022 March 31, 2023. The increase was due primarily to a $4.0 million $7.5 million, or 17% 34%, increase in salaries and employee benefits associated with higher commissions on higher production volume. Also contributing to support loan growth, as well as the higher expenses was a $2.8 million $2.9 million, or 373% 135%, increase in FDIC deposit insurance expenses. expenses reflecting our growth in assets and the change in fee structure, as we are now classified as a large financial institution over $10 billion. Also, impacting the higher expenses was a $1.8 million, or 81%, increase in professional fees. The efficiency ratio was at 28.0% 29.1% in the three months ended March 31, 2024, compared with 30.3% in the three months ended March 31, 2023.

Income Taxes. Income tax expense increased $8.9 million, or 48%, to $27.2 million for the three months ended September 30, 2023, compared with 30.5% for March 31, 2024 from the three months ended September 30, 2022 March 31, 2023.

Income Taxes. Provision for income tax of $25.1 million for the three months ended September 30, 2023 increased $6.1 million, or 33%, compared to the three months ended September 30, 2022. The increase primarily reflected a 38% increase in net income for the three months ended September 30, 2023.

The effective tax rate was 23.5% for the three months ended September 30, 2023 and 24.4% for the three months ended September 30, 2022.

Comparison of Operating Results for the Nine Months Ended September 30, 2023 and 2022

General. Net income of $201.8 million for the nine months ended September 30, 2023 increased $39.2 million, or 24%, from net income of $162.6 million for the nine months ended September 30, 2022. The increase was primarily due to a $100.6 million increase in net interest income and a $7.0 million decrease in provision for income taxes that was partially offset by a $23.1 million increase in noninterest expense, a $22.7 million decrease in noninterest income and a $22.6 million increase in provision for credit losses.

Net Interest Income. Net interest income of $323.7 million for the nine months ended September 30, 2023 increased $100.6 million, or 45%, compared to $223.1 million for the nine months ended September 30, 2022. The 45% increase reflected a $466.6 million, or 156%, increase in interest income from higher yields and average loan balances, partially offset by a $366.0 million, or 480%, increase in interest expense from higher rates and average balances of deposits. The interest rate spread of 2.52% for the nine months ended September 30, 2023 decreased 21 basis points compared to 2.73% for the nine months ended September 30, 2022.

Our net interest margin increased 17 basis points, to 3.07%, for the nine months ended September 30, 2023 from 2.90% for the nine months ended September 30, 2022.

Interest Income. Interest income of $766.0 million for the nine months ended September 30, 2023 increased $466.6 million, or 156%, compared with $299.4 million for the nine months ended September 30, 2022. This increase

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was primarily attributable to an increase in higher average yields and average loan balances, as well as higher average balances of held to maturity securities that were acquired after September 30, 2022.

The average balance of loans, including loans held for sale, during the nine months ended September 30, 2023 increased $3.0 billion, or 33%, to $12.0 billion compared to $9.0 billion for the nine months ended September 30, 2022, and the average yield on loans increased 336 basis points, to 7.63% for the nine months ended September 30, 2023, compared to 4.27% for the nine months ended September 30, 2022.

The average balance of securities held to maturity, during the nine months ended September 30, 2023 increased $1.0 billion to $1.1 billion compared to the nine months ended September 30, 2022. The average yield on securities held to maturity increased 233 basis points, to 6.24% for the nine months ended September 30, 2023 ended, compared to 3.91% for the nine months ended September 30, 2022.

The average balance of securities available for sale increased $269.6 million, or 84%, to $592.5 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, and the average yield increased 229 basis points, to 3.16% for the nine months ended September 30, 2023, compared to 0.87% for the nine months ended September 30, 2022.

The average balance of interest-earning deposits and other decreased $443.8 million, or 66%, to $231.5 million for the nine months ended September 30, 2023, from $675.3 million for the nine months ended September 30, 2022, and the average yield increased 482 basis points, to 5.45% for the nine months ended September 30, 2023, compared to 0.63% for the nine months ended September 30, 2022.

Interest Expense. Total interest expense of $442.3 million for the nine months ended September 30, 2023 increased $366.0 million, or 480%, compared to $76.3 million for the nine months ended September 30, 2022.

Interest expense on deposits increased $336.6 million, or 491%, to $405.1 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The increase was primarily due to increases in rates on certificates of deposit, interest-bearing checking and money market accounts.

The average balance of certificates of deposit accounts was $4.4 billion for the nine months ended September 30, 2023, an increase of $3.2 billion, or 254%, compared to the nine months ended September 30, 2022. The average rate on certificates of deposit accounts was 4.94% for the nine months ended September 30, 2023, which was a 363 basis point increase compared to 1.31% for the nine months ended September 30, 2022.

The average balance of interest-bearing checking accounts of $4.4 billion for the nine months ended September 30, 2023 increased $392.3 million, or 10%, compared to $4.0 billion for the nine months ended September 30, 2022. The average rate on interest-bearing checking accounts was 4.47% for the nine months ended September 30, 2023, which was a 344 basis point increase compared to 1.03% for the nine months ended September 30, 2022.

The average balance of money market accounts of $2.8 billion for the nine months ended September 30, 2023 increased $179.0 million, or 7%, compared to $2.6 million for the nine months ended September 30, 2022. The average rate on money market accounts was 4.41% for the nine months ended September 30, 2023, which was a 314 basis point increase compared to 1.27% for the nine months ended September 30, 2022.

Interest expense on borrowings increased $29.5 million, or 384%, to $37.1 million for the nine months ended September 30, 2023 from the nine months ended September 30, 2022. The increase was due primarily to a 673 basis points 56% increase in the average rate of borrowings pretax income period to 8.33% compared to 1.60% for the nine months ended September 30, 2022. The increase was primarily related to the credit linked notes issued by the Company in 2023. The higher average rates were partially offset by a $46.4 million decrease in average balances compared to the nine months ended September 30, 2022. Additionally, borrowings include our warehouse structured financing agreements that provide for

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additional interest payments for a portion of the earnings generated. As a result, the cost of borrowings increased from a base rate of 8.12% and 1.03%, to an effective rate of 8.33% and 1.60% for the nine months ended September 30, 2023 and 2022, respectively.

The following table presents, for the periods indicated, information about (i) average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Yields have been calculated on a pre-tax basis. Nonaccrual loans are included in loans and loans held for sale.

	Nine Months Ended September 30,					
	2023			2022		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-bearing deposits, and other	$ 231,549	$ 9,434	5.45 %	$ 675,318	$ 3,174	0.63 %
Securities available for sale - taxable	592,460	14,012	3.16 %	322,814	2,103	0.87 %
Held to maturity securities	1,082,502	50,492	6.24 %	33,148	970	3.91 %
Mortgage loans in process of securitization	216,245	7,358	4.55 %	260,452	5,856	3.01 %
Loans and loans held for sale	11,998,301	684,743	7.63 %	8,987,526	287,291	4.27 %
Total interest-earning assets	14,121,057	766,039	7.25 %	10,279,258	299,394	3.89 %
Allowance for credit losses on loans	(54,417)			(34,614)		
Noninterest-earning assets	474,883			324,068		
Total assets	$ 14,541,523			$ 10,568,712		
Liabilities/Equity:						
Interest-bearing checking	$ 4,417,224	$ 147,585	4.47 %	$ 4,024,969	$ 31,128	1.03 %
Savings deposits	238,404	905	0.51 %	236,334	257	0.15 %
Money market	2,798,622	92,364	4.41 %	2,619,729	24,914	1.27 %
Certificates of deposit	4,443,014	164,295	4.94 %	1,253,527	12,284	1.31 %
Total interest-bearing deposits	11,897,264	405,149	4.55 %	8,134,559	68,583	1.13 %
Borrowings	596,174	37,144	8.33 %	642,599	7,670	1.60 %
Total interest-bearing liabilities	12,493,438	442,293	4.73 %	8,777,158	76,253	1.16 %
Noninterest-bearing deposits	328,143			464,973		
Noninterest-bearing liabilities	169,746			107,276		
Total liabilities	12,991,327			9,349,407		
Equity	1,550,196			1,219,305		
Total liabilities and equity	$ 14,541,523			$ 10,568,712		
Net interest income		$ 323,746			$ 223,141	
Interest rate spread			2.52 %			2.73 %
Net interest-earning assets	$ 1,627,619			$ 1,052,100		
Net interest margin			3.07 %			2.90 %
Average interest-earning assets to average interest-bearing liabilities			113.03 %			117.11 %

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in weighted average interest rates. The

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following table sets forth the effects of changing rates and volumes on our net interest income during the periods shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Changes applicable to both volume and rate have been allocated to volume. Yields have been calculated on a pre-tax basis.

The following table summarizes the increases and decreases in interest income and interest expense resulting from changes in average balances (volume) and changes in average interest rates:

	Nine Months Ended September 30, 2023 compared to September 30, 2022		
	Increase (Decrease) Due to		
(Dollars in thousands)	Volume	Rate	Total
Interest income			
Interest-bearing deposits, and other	$ (2,086)	$ 8,346	$ 6,260
Securities available for sale - taxable	1,757	10,152	11,909
Securities held to maturity	30,707	18,815	49,522
Mortgage loans in process of securitization	(994)	2,496	1,502
Loans and loans held for sale	96,241	301,211	397,452
Total interest income	125,625	341,020	466,645
Interest expense			
Deposits			
Interest-bearing checking	3,034	113,423	116,457
Savings deposits	2	646	648
Money market deposits	1,701	65,749	67,450
Certificates of deposit	31,256	120,755	152,011
Total Deposits	35,993	300,573	336,566
Borrowings	(554)	30,028	29,474
Total interest expense	35,439	330,601	366,040
Net interest income	$ 90,186	$ 10,419	$ 100,605

Provision for Credit Losses. We recorded a provision for credit losses of $33.5 million for the nine months ended September 30, 2023, an increase of $22.6 million, or 208%, compared to $10.9 million for the nine months ended September 30, 2022. The increase was primarily due to loan growth in the period, as well as credit events and increases in qualitative factors and forecasted loss rates to reflect changes in industry conditions that were reported during the three months ended June 30, 2023, including:

- replenishment of $8.2 million related to the charge-off of a loan in the multi-family portfolio,
- a $4.6 million increase related to changes in qualitative factors and forecasted loss rates to reflect changes in industry conditions, such as the impact of higher rates, and
- a $2.0 million increase in net specific reserves, primarily related to a loan in the healthcare portfolio.

The $33.5 million total provision for credit losses consisted of $32.4 million for the ACL-Loans and $1.1 million for the ACL-OBCE's. The ACL-Loans was $66.9 million, or 0.67%, of total loans, at September 30, 2023, compared to $44.0 million, or 0.59%, of total loans, at December 31, 2022, and $39.0 million, or 0.56%, at September 30, 2022.

Noninterest Income. Noninterest income of $80.2 million for the nine months ended September 30, 2023 decreased $22.7 million, or 22%, compared to $103.0 million for the nine months ended September 30, 2022. The decrease was primarily due to a $24.0 million, or 45%, decrease in gain on sale of loans associated with a shift in business mix to programs with lower average trade pricing in the multi-family loan portfolio, as well as lower single-family and multi-family secondary market volumes.

A summary of the gain on sale of loans for the nine months ended September 30, 2023 and 2022 is below:

	Gain on Sale of Loans Nine Months Ended September 30, 2023	Gain on Sale of Loans Nine Months Ended September 30, 2022
	(in thousands)	
Loan Type		
Multi-family	$ 23,897	$ 46,578
Single-family	1,430	1,001
Small Business Association (SBA)	3,514	5,304
Total	$ 28,841	$ 52,883

Partially offsetting the decreases in noninterest income was a $2.2 million increase in syndication and asset management fees compared to the nine months ended September 30, 2022. This line of business is becoming a more meaningful source of noninterest income.

Also offsetting the decreases in noninterest income was a $0.9 million increase in loan servicing fees compared to the nine months ended September 30, 2022. The decrease reflected lower positive adjustments to fair value of servicing rights partially offset by higher servicing fees. Included in loan servicing fees was a $12.2 million positive adjustment to the fair value of servicing rights for the nine months ended September 30, 2023, compared to a positive adjustment of $19.9 million for the nine months ended September 30, 2022.

Noninterest Expense. Noninterest expense of $122.0 million for the nine months ended September 30, 2023 increased $23.1 million, compared to $98.9 million for the nine months ended September 30, 2022. The increase was primarily due to a $8.1 million, or 12%, increase in salaries and employee benefits as well as a $7.4 million, or 337%, increase in deposit insurance expense, reflecting asset growth. The efficiency ratio was at 30.2% for the nine months ended September 30, 2023, compared with 30.3% in the nine months ended September 30, 2022.

Income Taxes. Provision for income taxes of $46.7 million for the nine months ended September 30, 2023 decreased $7.0 million, or 13%, compared to $53.7 million for the nine months ended September 30, 2022. The decrease reflected a $13.0 million tax benefit related to tax refunds receivable and changes to state tax apportionment calculations that were partially offset by taxes on higher pre-tax income.

period. The effective tax rate was 18.8% 23.8% and 25.0% for the nine three months ended September 30, 2023 March 31, 2024 and 24.8% for the nine months ended September 30, 2022. March 31, 2023, respectively.

Our Segments

We operate in three primary segments: Multi-Family Multi-family Mortgage Banking, Mortgage Warehousing, and Banking. The reportable segments are consistent with the internal reporting and evaluation of the principal lines of business of the Company. The Multi-family Mortgage Banking segment originates and services government sponsored mortgages for multi-family and healthcare facilities. It is also a fully integrated syndicator of low-income housing tax credit and debt funds. As one of the top ranked agency lenders in the nation, our licenses with Fannie Mae, Freddie Mac, and FHA, coupled with our bank financing products, provide sponsors custom beginning-to-end financing solutions that adapt to an ever-changing market. We are also one of the largest GNMA Ginnie Mae servicers in the country based on aggregate loan principal value. As of September 30, 2023 March 31, 2024 the Company's total servicing portfolio had an unpaid principal balance of $24.5 billion $26.4 billion, primarily managed in the Multi-Family Mortgage Banking segment. Included in this amount was an unpaid principal balance of loans serviced for others of $14.5 billion $15.4 billion, an unpaid principal balance of loans sub-serviced for others of $2.1 billion $2.2 billion, and other servicing balances of $0.7 billion at September 30, 2023 March 31, 2024. These loans are not included in the accompanying unaudited condensed consolidated balance sheets. sheet. The Company also manages $7.2 billion $8.1 billion of loans for customers that have loans on the balance sheet at September 30, 2023 March 31, 2024. The servicing portfolio is primarily GNMA, Ginnie Mae, Fannie Mae, and Freddie Mac loans and is a significant source of our noninterest income and deposits.

Our Mortgage Warehousing segment funds agency eligible loans for non-depository financial institutions from the date of origination or purchase until the date of sale to an investor, which typically takes less than 30 days and is a significant source of our net interest income, loans, and deposits. Mortgage Warehousing has grown to fund funded over $78.3 billion in 2021, $33.2 billion in 2022, $33.0 billion in 2023 and $24.6 billion for $7.9 billion in the nine three months ended September 30, 2023 March 31, 2024. Mortgage Warehousing also provides commercial loans secured by GNMA, Fannie Mae, and Freddie Mac servicing rights and collects deposits related to the mortgage escrow accounts of its customers. Merchants was recently ranked as the third largest warehouse lender ranked by total commitments by *Inside Mortgage Finance.*

The Banking segment includes retail banking, commercial lending, agricultural lending, retail and correspondent residential mortgage banking, and SBA lending. Banking operates primarily in Indiana, and Illinois, except for correspondent mortgage banking which, like Multi-family Mortgage Banking and Mortgage Warehousing, is a national business. The

Banking segment has a well-diversified customer and borrower base and has experienced significant growth over the past three years.

Our segments diversify the net income of Merchants Bank and provide synergies across the segments. The strategic Strategic opportunities include that come from MCC and MCS, where loans are funded by Merchants the Banking segment and the Banking segment provides GNMA Ginnie Mae custodial services to MCC. MCC and MCS. Low-income tax credit syndication and debt fund offerings complement the lending activities of new and existing multi-family mortgage customers. The securities available for sale and held to maturity funded by MCC custodial deposits as well as or purchases of securitized loans generated originated by Merchants Bank, MCC are pledged to the FHLB to provide advance capacity during periods of high residential loan volume for Mortgage Warehousing. Mortgage Warehousing and Correspondent Mortgage Banking share customer leads. MCC also provides leads to Merchants Bank for core deposit opportunities. Correspondent Residential Lending in the Banking segment. Retail and commercial customers provide cross selling opportunities within the banking segment. Merchants Mortgage is a risk mitigant to Mortgage Warehousing because it provides us with a ready platform to sell the underlying collateral to secure repayment. These and other synergies form a part of our strategic plan.

The Other segment presented below, in *Note 15: Segment Information,* and elsewhere in this report includes general and administrative expenses for provision of services to all segments, internal funds transfer pricing offsets resulting from allocations to or from the other segments, certain elimination entries, and investments in low-income housing tax credit limited partnerships or Limited Liability Companies (“LLC”).

For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, we had total net income of $81.5 million $87.1 million and $58.5 million, respectively. For the nine months ended September 30, 2023 and 2022, we had total net income of $201.8 million and $162.6 million $55.0 million, respectively. Net income for our three segments for the respective periods was as follows:

	For the Three Months Ended September 30,	For the Nine Months Ended September 30,

	2023	2022	2023	2022
	(In thousands)			
Multi-family Mortgage Banking	$ 14,685	$ 13,366	$ 27,893	$ 44,414
Mortgage Warehousing	19,926	11,801	47,163	36,828
Banking	52,445	39,344	144,402	94,040
Other	(5,552)	(6,023)	(17,697)	(12,717)
Total	$ 81,504	$ 58,488	$ 201,761	$ 162,565

	For the Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Multi-family Mortgage Banking	$ 16,609	$ 1,966
Mortgage Warehousing	20,190	8,641
Banking	56,425	49,307
Other	(6,170)	(4,959)
Total	$ 87,054	$ 54,955

Multi-family Mortgage Banking.

Comparison of results for the three months ended September 30, 2023 and 2022:

The Multi-family Mortgage Banking segment reported net income of $14.7 million $16.6 million for the three months ended September 30, 2023 March 31, 2024, an increase of $1.3 million $14.6 million, or 10% 745%, compared to from net income of $2.0 million reported for the three months ended September 30, 2022 March 31, 2023. The increase in net income was primarily due to a $16.4 million increase in servicing fees, as well as higher syndication and asset management fees, and higher gain on sale of loans.

Servicing fees included a $13.2 million positive fair market value adjustment to servicing rights for the three months ended March 31, 2024, compared to a $2.2 million negative adjustment to fair value of servicing rights for the three months ended March 31, 2023.

Mortgage Warehousing. The Mortgage Warehousing segment reported net income of $20.2 million for the three months ended March 31, 2024, an increase of $11.5 million, or 134%, compared to $8.6 million for the three months ended March 31, 2023. The increase in net income reflected higher net interest income as volumes increased.

There was a 46% increase in warehouse loan volume of $7.9 billion compared to $5.4 billion for the three months ended March 31, 2023, which significantly exceeded industry volume increases of 13%, according to the Mortgage Bankers Association.

increase was primarily due to a $1.0 million increase in net interest income and a $2.6 million decrease in noninterest expenses, that was partially offset by a $2.2 million decrease in noninterest income.

Noninterest income included a $9.3 million increase in loan servicing fees that was offset by a $10.7 million decrease on gain on sale of loans for the three months ended September 30, 2023. Loan servicing fees included a positive fair market value adjustment of $10.4 million on servicing rights, compared to a positive fair market value adjustment of $3.7 million for the three months ended September 30, 2022.

The total volume of loans originated and acquired through our multi-family business was $1.4 billion for the three months ended September 30, 2023, a decrease of $869.4 million, or 39%, compared to $2.2 billion for the three months ended September 30, 2022. Many of these loans are bridge loans housed in our banking segment while borrowers await conversion to permanent financing. The volume of bridge loans was

$785.8 million for the three months ended September 30, 2023, a decrease of $705.7 million, or 47%, compared to $1.5 billion for the three months ended September 30, 2022. The volume of loans originated and acquired for sale in the secondary market increased by $55.1 million, or 15%, to $422.1 million, compared to $367.0 million for the three months ended September 30, 2022.

Comparison of results for the nine months ended September 30, 2023 and 2022:

The Multi-family Mortgage Banking segment reported net income of $27.9 million for the nine months ended September 30, 2023, a decrease of $16.5 million, or 37%, from the $44.4 million of net income reported for the nine months ended September 30, 2022. The decrease was primarily due to a $36.8 million decrease in noninterest income, including a $42.9 million decrease in gain on sale of loans that was partially offset by a $8.1 million increase in loan servicing fees.

Loan servicing fees for the nine months ended September 30, 2023 included a positive fair market value adjustment of $10.4 million on servicing rights, compared to a positive fair market value adjustment of $13.6 million for the nine months ended September 30, 2022.

The lower noninterest income was partially offset by a $10.0 million decrease in the provision for income tax that was associated with a tax benefit for tax refunds receivable and changes to state tax apportionment calculations, as well as a $6.5 million decrease in noninterest expense that was associated with lower commission expenses on lower gain on sale for the nine months ended September 30, 2023.

The total volume of loans originated and acquired through our multi-family business was $3.7 billion for the nine months ended September 30, 2023, a decrease of $3.1 billion, or 46%, compared to $6.8 billion for the nine months ended September 30, 2022. Many of these loans are bridge loans housed in our banking segment while borrowers await conversion to permanent financing. The volume of bridge loans was $1.8 billion for the nine months ended September 30, 2023, a decrease of $3.0 billion, or 62%, compared to $4.8 billion for the nine months ended September 30, 2022. The volume of loans originated and acquired for sale in the secondary market decreased by $110.6 million, or 8%, to $1.2 billion, compared to $1.3 billion for the nine months ended September 30, 2022.

Mortgage Warehousing.

Comparison of results for the three months ended September 30, 2023 and 2022:

The Mortgage Warehousing segment reported net income of $19.9 million for the three months ended September 30, 2023, an increase of $8.1 million, or 69%, compared to the three months ended September 30, 2022. The higher net income reflected a $11.5 million increase in net interest income primarily from higher yields and volumes on loans held for sale and revolving lines of credit that are collateralized by mortgage servicing rights.

There was a 23% increase in warehouse loan volume of $10.8 billion compared to $8.8 billion for the three months ended September 30, 2022, which compared to an industry volume decrease of 10%, according to the Mortgage Bankers Association.

Comparison of results for the nine months ended September 30, 2023 and 2022:

The Mortgage Warehousing segment reported net income for the nine months ended September 30, 2023 of $47.2 million, an increase of $10.3 million, or 28%, over the nine months ended September 30, 2022. The higher net income was primarily due to a $11.3 million increase in net interest income associated with higher interest income due to higher yields and volume on loans held for sale and revolving lines of credit that are collateralized by mortgage servicing rights.

There was a 9% decrease in warehouse loan volume of $24.6 billion compared to $26.9 billion for the nine months ended September 30, 2022, which compared to an industry volume decrease of 35% according to the Mortgage Bankers Association.

Banking.

Comparison of results for the three months ended September 30, 2023 and 2022:

The Banking segment reported net income of $52.4 million $56.4 million for the three months ended September 30, 2023 March 31, 2024, an increase of $13.1 million $7.1 million, or 33% 14%, compared to the three months ended September 30, 2022. The increase was primarily due to a $19.2 million increase in net interest income and a $7.8 million increase in noninterest income, which were partially offset by a $7.2 million increase in noninterest expense and a $4.2 million increase in the provision for income taxes.

Noninterest income $49.3 million for the three months ended September 30, 2023 March 31, 2023. The increase in net income was primarily due to higher net interest income from higher yields and average balances on loans.

The results included a $0.8 million positive fair market value adjustment of $1.2 million on single-family to servicing rights compared to a positive fair market value adjustment of $0.9 million for the three months ended September 30, 2022.

Comparison of results for the nine months ended September 30, 2023 and 2022:

The Banking segment reported net income of $144.4 million for the nine months ended September 30, 2023, an increase of $50.4 million, or 54% March 31, 2024, compared to $94.0 million a $0.7 million negative adjustment to fair value of servicing rights for the nine three months ended September 30, 2022. The increase was primarily due to a $84.8 million increase in net interest income and a $13.9 million increase in noninterest income, partially offset by a $21.4 million increase in the provision for credit losses, and a $20.3 million increase in noninterest expense.

Noninterest income for the nine months ended September 30, 2023 included a positive fair market value adjustment of $1.8 million on single-family servicing rights, compared to a positive fair market value adjustment of $6.3 million for the nine months ended September 30, 2022 March 31, 2023.

Liquidity and Capital Resources

Liquidity.

Our primary sources of funds are business and consumer deposits, escrow and custodial deposits, brokered deposits, borrowings, principal and interest payments on loans, interest on investment securities, and proceeds from sale of loans. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, economic conditions, and competition.

At September 30, 2023 March 31, 2024, based on available collateral, we had $5.4 billion $5.6 billion in available unused borrowing capacity with the FHLB and the Federal Reserve discount window. This compared to $6.0 billion at December 31, 2023. While the amounts available fluctuate daily, we also had

available capacity in credit lines through our membership in the AFX. This liquidity enhances the ability to effectively manage interest expense and asset levels in the future.

The Company's most liquid assets are in cash, short-term investments, including interest-bearing demand deposits, mortgage loans in process of securitization, loans held for sale, and warehouse lines of credit repurchase agreements included in loans receivable. Taken together with its unused borrowing capacity of $5.4 billion $5.6 billion described below, above, these totaled $10.7 billion $10.9 billion, or 65% 61%, of its $16.5 billion $17.8 billion total assets at September 30, 2023 March 31, 2024. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our liquid assets and borrowing capacity significantly exceed our uninsured deposits. Uninsured deposits totaled approximately $2 billion $2.1 billion as of September 30, 2023 March 31, 2024, representing less than 20% 15% of total deposits. Since 2018, the Company has offered its customers an opportunity to insure balances in excess of $250,000 through our insured cash sweep program that extends FDIC protection up to $100 million. The balance of deposits in this program was $1.8 billion $1.7 billion and $1.6 billion as of September 30, 2023. March 31, 2024 and December 31, 2023, respectively.

The Company's investment portfolio has minimal levels of unrealized losses and management does not anticipate a need to sell securities for liquidity purposes at a loss. We are able to maintain minimal levels of investment securities because of our originate to sell model, which provides ongoing liquidity. As of September 30, 2023 March 31, 2024, Accumulated Other Comprehensive Losses ("AOCL") of $4.8 million losses, $1.2 million, related to securities available for sale, decreased $5.8 million $1.3 million, or 55% 53%, compared to losses of $10.5 million $2.5 million as of December 31, 2022 December 31, 2023. The $4.8 million loss in $1.2 million of AOCL as of September 30, 2023 March 31, 2024 represented less than 1% of total equity and 1% of total securities available for sale.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash (used in) provided used in by operating activities was $(1.1) billion $(383.8) million and $1.8 billion $(301.5) million for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Net cash (used in) used in investing activities, which consists primarily of net change in loans receivable and purchases, sales and maturities of investment securities and loans, was $(2.4) billion $(695.0) million and $(3.0) $(1.1) billion for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Net cash provided by financing activities, which is comprised primarily of net change in borrowings and deposits was $3.6 billion $1.0 billion and $507.4 million $1.6 billion for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

At September 30, 2023 we had $3.4 billion in outstanding commitments to extend credit that are subject to credit risk and $5.7 billion outstanding commitments subject to certain performance criteria and cancellation by the Company, including loans pending closing, unfunded construction draws, and unfunded lines of warehouse credit. We anticipate that we will have sufficient funds available to meet our current loan origination commitments. Additionally, our business model is designed to sell a significant portion of our loans, which provides flexibility in managing liquidity.

Certificates of deposit that are scheduled to mature in less than one year from September 30, 2023 March 31, 2024 totaled $4.9 billion $5.9 billion, or 97%, 98% of total certificates of deposit. Management expects that a substantial portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may decide to utilize

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FHLB advances, the Federal Reserve discount window, brokered deposits, or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

Off-Balance Sheet Arrangements.

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, lines of credit and standby letters of credit.

At March 31, 2024, we had $3.8 billion in outstanding commitments to extend credit that are subject to credit risk and $4.1 billion outstanding commitments subject to certain performance criteria and cancellation by the Company, including loans pending closing, unfunded construction draws, and unfunded lines of warehouse credit. We anticipate that we will have sufficient funds available to meet our current loan origination commitments. Additionally, the Company's business model is designed to continuously sell a significant portion of its loans, which provides flexibility in managing its liquidity.

Capital Resources.

The access to and cost of funding for new business initiatives, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs and the level and nature of regulatory oversight depend, in part, on our capital position. The

Company filed a shelf registration statement on Form S-3 with the SEC on August 8,

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2022, August 8, 2022, which was declared effective on August 17, 2022, under which we can issue up to $500 million aggregate offering amount of registered securities to finance our growth objectives. As previously demonstrated, the Company also has the ability to utilize securitization transactions to free up capital as needed.

The assessment of capital adequacy depends on a number of factors, including asset quality, liquidity, earnings performance, changing competitive conditions and economic forces. We seek to maintain a strong capital base to support our growth and expansion activities, to provide stability to our current operations and to promote public confidence in our Company.

Shareholders' Equity. Shareholders' equity was $1.6 billion $1.8 billion as of September 30, 2023 March 31, 2024, compared to $1.5 billion $1.7 billion as of December 31, 2022 December 31, 2023. The $173.0 million $75.4 million, or 4%, increase resulted primarily from net income of $201.8 million $87.1 million, which was partially offset by dividends paid on common and preferred shares of $36.4 million $12.6 million during the period.

7% Series A Preferred Stock. In March 2019 the Company issued 2,000,000 shares of 7.00% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, without par value, and with a liquidation preference of $25.00 per share ("Series A Preferred Stock"). The Company received net proceeds of $48.3 million after underwriting discounts, commissions and direct offering expenses. In April 2019, the Company issued an additional 81,800 shares of Series A Preferred Stock to the underwriters related to their exercise of an option to purchase additional shares under the associated underwriting agreement, resulting in an addition $2.0 million in net proceeds, after underwriting discounts.

In June 2019 the The Company issued an additional 874,000 redeemed all outstanding shares of Series A Preferred Stock for net proceeds of $21.85 million.

In September 2019 the Company repurchased and subsequently retired 874,000 shares of Series A Preferred Stock at an aggregate cost of $21.85 million. There were no brokerage fees in connection with the transaction.

Dividends on the Series A Preferred Stock, to the extent declared by the Company's board, are payable quarterly at an annual rate of $1.75 per share through March 31, 2024. After such date, quarterly dividends were to accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of 460.5 basis points per year. However, the terms of the Series A Preferred Stock permit us to replace three-month LIBOR if we determine that LIBOR has been discontinued or is no longer viewed as an acceptable benchmark for similar securities. With the cessation of published three-month LIBOR rates as of June 30, 2023, the Company has determined that three-month LIBOR has been discontinued and is no longer an acceptable benchmark. The Company anticipates replacing three-month LIBOR with Federal Reserve's three month Secured Overnight Financing Rate ("SOFR"). The Company believes that three-month SOFR represents the most comparable replacement benchmark, is an industry-accepted substitute, and is consistent with expectations of investors in securities similar on April 1, 2024 at a price equal to the Series A Preferred Stock. In addition to replacing three-month LIBOR with three-month SOFR, liquidation preference of $25.00 per share, using cash on hand. As of the terms of redemption date, the Series A Preferred Stock permit us to adjust the spread to ensure that the payable floating rate remains comparable. Therefore, the Company anticipates increasing the spread by 26.2 basis points, which is consistent with industry practice and the recommendation of the Federal Reserve's Alternative Reference Rates Committee, resulting in the Company paying a floating rate of three-month SOFR plus a spread of 486.7 basis points during the floating rate period. The Company may also redeem the Series A Preferred Stock at its option, subject to regulatory approval, on or after April 1, 2024.did not have any accrued but unpaid dividends.

6% Series B Preferred Stock. In August 2019 the Company issued 5,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.00% Fixed-to-Floating Rate Series B Non-Cumulative Perpetual Preferred Stock, without par value, and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share)("Series B Preferred Stock"). After deducting underwriting discounts, commissions, and direct offering expenses, the Company received total net proceeds of $120.8 million.

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Dividends on the Series B Preferred Stock, to the extent declared by the Company's board, are payable quarterly at an annual rate of $60.00 per share (equivalent to $1.50 per depositary share) through September 30, 2024. After such date, quarterly dividends were to accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of

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Merchants Bancorp

456.9 basis points per year. However, the terms of the Series B Preferred Stock permit us to replace three-month LIBOR if we determine that LIBOR has been discontinued or is no longer viewed as an acceptable benchmark for similar securities. With the cessation of published three-month LIBOR rates as of June 30, 2023, the Company has determined that three-month LIBOR has been discontinued and is no longer an acceptable benchmark. The Company anticipates replacing has replaced three-month LIBOR with Federal Reserve's three month Secured Overnight Financing Rate ("SOFR"). The Company believes that three-month SOFR represents the most comparable replacement benchmark, is an industry-accepted substitute, and is consistent with expectations of investors in securities similar to the Series B Preferred Stock. In addition to replacing three-month LIBOR with three-month SOFR, the terms of the Series B Preferred Stock permit us to adjust the spread to ensure that the payable floating rate remains comparable. Therefore, if the Series B Preferred Stock remains outstanding on or after October 1, 2024, in addition to using three-month SOFR as the benchmark, the Company anticipates increasing will increase the spread by 26.2 basis points, which is consistent with industry practice and the recommendation of the Federal Reserve's Alternative Reference Rates Committee, resulting in the Company paying a floating rate of three-month SOFR plus a spread of 483.1 basis points during the floating rate period. The Company may also redeem the Series B Preferred Stock at its option, subject to regulatory approval, on or after April 1, 2024 October 1, 2024.

6% Series C Preferred Stock. On March 23, 2021, the Company issued 6,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.00% Fixed Rate Series C Non-Cumulative Perpetual Preferred Stock, without par value (the "Series C Preferred Stock"), and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share). The aggregate gross offering proceeds for the shares issued by the Company was $150.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $5.1 million paid to third parties, the Company received total net proceeds of $144.9 million.

On May 6, 2021, our previously issued, 8% preferred shareholders participated in a private offering to replace their redeemed 8% preferred shares with the Company's 6% Series C preferred stock. Accordingly, 46,181 shares (1,847,233 depositary shares) of the Company's 6% Series C preferred stock were issued at a price of $25 per depositary share. The total capital raised from the private offering was $46.2 million, net of $23,000 in expenses.

Dividends on the Series C Preferred Stock, to the extent declared by the Company's board, are payable quarterly. The Company may redeem the Series C Preferred Stock, in whole or in part, at our option, on any dividend payment date on or after April 1, 2026, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

8.25% Series D Preferred Stock. On September 27, 2022, the Company issued 5,200,000 depositary shares, each representing a 1/40th interest in a share of its 8.25% Fixed Rate Reset Series D Non-Cumulative Perpetual Preferred Stock, without par value (the "Series D Preferred Stock"), and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share). The aggregate gross offering proceeds for the shares issued by the Company was $130.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $4.6 million paid to third parties, the Company received total net proceeds of $125.4 million. On September 30, 2022, the Company issued an additional 500,000 shares of Series D Preferred Stock to the underwriters related to their exercise of an option to purchase additional shares under the associated underwriting agreement, resulting in an additional $12.1 million in net proceeds, after deducting $0.4 million in underwriting discounts.

Dividends on the Series D Preferred Stock, to the extent declared by the Company's board, are payable quarterly. The Company may redeem the Series D Preferred Stock, in whole or in part, at our option, on any dividend payment date on or after October 1, 2027, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

Common Shares/Dividends. As of September 30, 2023 If the Series D Preferred Stock remains outstanding on October 1, 2027, its dividend rate would reset to the Company had 43,240,212 common shares issued 5-year Treasury rate, plus 4.34% and outstanding. The Board expects to declare a quarterly dividend of $0.08 per share in each quarter of 2023.

would remain at that level for an additional 5 years.

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Common Shares/Dividends. As of March 31, 2024, the Company had 43,354,718 common shares issued and outstanding. The Board declared a quarterly dividend of $0.09 per share for the first quarter of 2024.

Capital Adequacy.

The following tables present the Company's capital ratios at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	Actual		Minimum Amount to be Well Capitalized with Basel III Buffer(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
September 30, 2023						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,699,507	11.5 %	$ 1,556,494	10.5 %	$ —	N/A %
Merchants Bank	1,669,849	11.5 %	1,526,849	10.5 %	1,454,142	10.0
FMBI	38,995	11.2 %	36,546	10.5 %	34,806	10.0 %
Tier I capital(1) (to risk-weighted assets)						
Company	1,620,024	10.9 %	1,260,019	8.5 %	—	N/A %
Merchants Bank	1,591,057	10.9 %	1,236,021	8.5 %	1,163,314	8.0
FMBI	38,303	11.0 %	29,585	8.5 %	27,845	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	1,120,416	7.6 %	1,037,663	7.0 %	—	N/A %
Merchants Bank	1,591,057	10.9 %	1,017,899	7.0 %	945,192	6.5
FMBI	38,303	11.0 %	24,364	7.0 %	22,624	6.5 %
Tier I capital(1) (to average assets)						
Company	1,620,024	10.1 %	640,543	4.0 %	—	N/A %
Merchants Bank	1,591,057	10.1 %	628,478	4.0 %	785,597	5.0
FMBI	38,303	10.6 %	14,440	4.0 %	18,050	5.0 %

	Actual		Minimum Amount to be Well Capitalized with Basel III Buffer(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
March 31, 2024						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,858,348	11.7 %	$ 1,662,302	10.5 %	$ —	N/A %
Merchants Bank	1,801,020	11.4 %	1,660,561	10.5 %	1,581,487	10.0
Tier I capital(1) (to risk-weighted assets)						
Company	1,768,553	11.2 %	1,345,673	8.5 %	—	N/A %
Merchants Bank	1,711,225	10.8 %	1,344,264	8.5 %	1,265,189	8.0
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	1,268,945	8.0 %	1,108,202	7.0 %	—	N/A %
Merchants Bank	1,711,225	10.8 %	1,107,041	7.0 %	1,027,966	6.5
Tier I capital(1) (to average assets)						
Company	1,768,553	10.5 %	839,199	5.0 %	—	N/A %
Merchants Bank	1,711,225	10.2 %	837,560	5.0 %	837,560	5.0

(1) As defined by regulatory agencies.

	Actual		Minimum Amount to be Well Capitalized with Basel III Buffer(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2023						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,772,195	11.6 %	$ 1,598,260	10.5 %	$ —	N/A %
Merchants Bank	1,724,505	11.5 %	1,577,434	10.5 %	1,502,318	10.0 %
FMBI	40,613	21.1 %	20,209	10.5 %	19,247	10.0 %
Tier I capital(1) (to risk-weighted assets)						
Company	1,686,202	11.1 %	1,293,830	8.5 %	—	N/A %
Merchants Bank	1,639,171	10.9 %	1,276,970	8.5 %	1,201,854	8.0 %
FMBI	39,953	20.8 %	16,360	8.5 %	15,398	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	1,186,594	7.8 %	1,065,507	7.0 %	—	N/A %
Merchants Bank	1,639,171	10.9 %	1,051,623	7.0 %	976,507	6.5 %
FMBI	39,953	20.8 %	13,473	7.0 %	12,511	6.5 %
Tier I capital(1) (to average assets)						
Company	1,686,202	10.1 %	832,706	5.0 %	—	N/A %
Merchants Bank	1,639,171	10.1 %	815,191	5.0 %	815,191	5.0 %
FMBI	39,953	11.5 %	17,391	5.0 %	17,391	5.0 %

(1) As defined by regulatory agencies.

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	Actual		Minimum Amount Required for Adequately Capitalized(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2022						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,507,968	12.2 %	$ 992,883	8.0 %	$ —	N/A %
Merchants Bank	1,427,738	11.7 %	975,853	8.0 %	1,219,817	10.0 %
FMBI	34,769	11.3 %	24,703	8.0 %	30,878	10.0 %
Tier I capital(1) (to risk-weighted assets)						
Company	1,452,456	11.7 %	744,662	6.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	731,890	6.0 %	975,853	8.0 %
FMBI	34,054	11.0 %	18,527	6.0 %	24,703	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	952,848	7.7 %	558,497	4.5 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	548,917	4.5 %	792,881	6.5 %
FMBI	34,054	11.0 %	13,895	4.5 %	20,071	6.5 %
Tier I capital(1) (to average assets)						
Company	1,452,456	11.7 %	497,604	4.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	487,511	4.0 %	609,389	5.0 %
FMBI	34,054	10.7 %	12,702	4.0 %	15,878	5.0 %

(1) As defined by regulatory agencies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Merchants Bank and FMBI to maintain minimum amounts and ratios. ratios (set forth in the table above). Management believes, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, that the Company and Merchants Bank and FMBI met all capital adequacy requirements to which they were subject.

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the most recent notifications from the Federal Reserve categorized the Company as well capitalized and most recent notifications from the FDIC categorized Merchants Bank and FMBI as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's or Merchants Bank's category.

FMBI was subject to these measures prior to the sale of its branches and the merger of its remaining charter into Merchants Bank in January 2024. As of December 31, 2023, FMBI met all capital adequacy requirements (as set forth in the table above). The FDIC categorized FMBI as well capitalized at that time and there are no conditions or FMBI's events since that notification that management believes would have changed that category.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk. Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk related to market demand.

Interest Rate Risk

Overview. Overview. Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (reprice risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay residential mortgage loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in

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a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries or SOFR.

Our business consists primarily of funding fixed rate, low risk, multi-family, residential and SBA loans meeting underwriting standards of government programs under an originate to sell model, and retaining adjustable rate loans as held for investment to reduce interest rate risk.

Our Asset-Liability Committee, or ALCO, is a management committee that manages our interest rate risk within broad policy limits established by our board of directors. In general, we seek to minimize the impact of changing interest rates on net interest income and the economic values of assets and liabilities. Our ALCO meets quarterly, at a minimum, to monitor the level of interest rate risk sensitivity to ensure compliance with the board of directors' approved risk limits. Additionally, the Risk Committee meets quarterly, in conjunction with Board meetings, to assess risks associated with interest rate sensitivity.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a

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liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Income Simulation and Economic Value Analysis Analysis. . Interest rate risk measurement is calculated and reported to the ALCO at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

We use two approaches to model interest rate risk: Net Interest Income at Risk (NII at Risk) and Economic Value of Equity ("EVE"). Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivatives and excludes non-interest income. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

We report NII at Risk to isolate the change in income related solely to interest-earning assets and interest-bearing liabilities. The NII at Risk results reflect the analysis used quarterly by management. It models gradual -200, -100, +100

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and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next one-year period.

The following table presents NII at Risk for Merchants Bank as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

	Net Interest Income Sensitivity Twelve Months Forward				Net Interest Income Sensitivity Twelve Months Forward			
	- 200	- 100	+ 100	+ 200	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)				(Dollars in thousands)			
September 30, 2023:								

March 31, 2024:								
Dollar change	$ (82,126)	$ (40,859)	$ 26,931	$ 51,728	$(75,217)	$(37,381)	$29,134	$56,508
Percent change	(16.7)%	(8.3)%	5.5 %	10.5 %	(14.5)%	(7.2)%	5.6 %	10.9 %
December 31, 2022:								
December 31, 2023:								
Dollar change	$ (96,861)	$ (48,581)	$ 37,232	$ 74,094	$(73,311)	$(36,576)	$29,601	$57,294
Percent change	(23.8)%	(11.9)%	9.2 %	18.2 %	(15.0)%	(7.5)%	6.0 %	11.7 %

Our interest rate risk management policy limits the change in our net interest income to 20% for a +/- 100 -100 basis point move in interest rates, and 30% for a +/- 200 -200 basis point move in rates. At September 30, 2023 March 31, 2024 we estimated that we are within policy limits set by our board of directors for the -200, -100, +100, and +200 basis point scenarios.

The EVE results for Merchants Bank included in the following table reflect the analysis used quarterly by management. It models immediate -200, -100, +100 and +200 basis point parallel shifts in market interest rates.

	Economic Value of Equity Sensitivity (Shock)				Economic Value of Equity Sensitivity (Shock)			
	Immediate Change in Rates				Immediate Change in Rates			
	- 200	- 100	+ 100	+ 200	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)				(Dollars in thousands)			
September 30, 2023:								
March 31, 2024:								
Dollar change	$ 34,279	$ 19,426	$ (25,408)	$ (65,764)	$173,967	$90,058	$(31,781)	$(77,259)
Percent change	2.2 %	1.2 %	(1.6)%	(4.2)%	10.2 %	5.3 %	(1.9)%	(4.6)%
December 31, 2022:								
December 31, 2023:								
Dollar change	$ 22,855	$ 11,640	$ (10,925)	$ (26,385)	$180,864	$92,793	$(34,800)	$(79,455)
Percent change	1.6 %	0.8 %	(0.8)%	(1.9)%	10.8 %	5.5 %	(2.1)%	(4.7)%

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Our interest rate risk management policy limits the change in our EVE to 15% for a +/- 100-100 basis point move in interest rates, and 20% for a +/- 200-200 basis point move in rates. We are within policy limits set by our board of directors for the -200, -100, +100 and +200 basis point scenarios. The EVE reported at September 30, 2023March 31, 2024 projects that as interest rates increase (decrease) immediately, the economic value of equity position will be expected to decrease (increase). When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

The information required under this item is included as part of "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q under the headings "Liquidity and Capital Resources" and "Interest Rate Risk."

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ITEM 4 Controls and Procedures

(a) **Evaluation of disclosure controls and procedures.**

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2023March 31, 2024, the Company's disclosure controls and procedures were effective.

(b) **Changes in internal control.**

There have been no changes in the Company's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Merchants Bancorp
Part II
Other Information

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the "Risk Factors" section included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022December 31, 2023.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

Exhibit Number	Description
3.1	Second Amended and Restated Articles of Incorporation of Merchants Bancorp. Bancorp (incorporated by reference to Exhibit 3.1 of Form 8-K, filed on May 24, 2022).
3.2	Articles of Amendment to the Second Amended and Restated Articles of Incorporation dated September 27, 2022 designating the 8.25% Fixed Rate Reset Series D Non-Cumulative Perpetual Preferred Stock (incorporated by reference to Exhibit 3.2 of Form 8-A filed on September 27, 2022).
3.3	Second Amended and Restated By-Laws of Merchants Bancorp (incorporated by reference to Exhibit 3.1 of Form 8-K, filed on November 20, 2017).
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	Written Statement of Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	
104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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Merchants Bancorp

SIGNATURES

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

Merchants Bancorp

Date: November 9, 2023 May 10, 2024	By: /s/ Michael F. Petrie Michael F. Petrie Chairman & Chief Executive Officer
Date: November 9, 2023 May 10, 2024	By: /s/ John F. Macke John F. Macke Chief Financial & Accounting Officer (Principal Financial & Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael F. Petrie, the Chief Executive Officer of Merchants Bancorp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merchants Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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 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 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.

November 9, 2023 May 10, 2024	/s/Michael F. Petrie
Date	Michael F. Petrie
	Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John F. Macke, the Principal Financial Officer of Merchants Bancorp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merchants Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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 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 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.

November 9, 2023 May 10, 2024	/s/John F. Macke
Date	John F. Macke
	Principal Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Michael F. Petrie, Chief Executive Officer, and John F. Macke, Principal Financial Officer, of Merchants Bancorp (the "Registrant"), each hereby certify, in their capacity as an officer of the Registrant that he has reviewed the quarterly report of the Registrant on Form 10-

Q for the quarter ended September 30, 2023 March 31, 2024 (the “Report”), and that to the best of his knowledge:

(1) The Report fully complies with the requirements of Sections 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 Registrant.

November 9, 2023 May 10, 2024	/s/ Michael F. Petrie
Date	Michael F. Petrie
	Chief Executive Officer
November 9, 2023 May 10, 2024	/s/John F. Macke
Date	John F. Macke
	Principal Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the SEC or its staff upon request.

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.