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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, 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
Depositary Shares, each representing a 1/40th interest in a share of Series B Preferred Stock, without par value	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	MBINM	NASDAQ

As of November 1, 2024, the latest practicable date, 45,764,023 shares of the registrant's common stock, without par value, were issued and outstanding.

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Merchants Bancorp

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Part I – Financial Information

Item 1. Financial Statements

Merchants Bancorp
Condensed Consolidated Balance Sheets
September 30, 2024 (Unaudited) and December 31, 2023
(In thousands, except share data)

	September 30, 2024	December 31, 2023*
Assets		
Cash and due from banks	$ 12,214	$ 15,592
Interest-earning demand accounts	589,692	568,830
Cash and cash equivalents	601,906	584,422
Securities purchased under agreements to resell	3,279	3,349
Mortgage loans in process of securitization	430,966	110,599
Securities available for sale ($682,975 and $722,497 utilizing fair value option, respectively)	953,063	1,113,687
Securities held to maturity ($1,756,203 and $1,203,535 at fair value, respectively)	1,755,047	1,204,217
Federal Home Loan Bank (FHLB) stock and other equity securities	184,050	48,578
Loans held for sale (includes $91,084 and $86,663 at fair value, respectively)	3,808,234	3,144,756
Loans receivable, net of allowance for credit losses on loans of $84,549 and $71,752, respectively	10,261,890	10,127,801
Premises and equipment, net	53,161	42,342
Servicing rights	177,327	158,457
Interest receivable	86,612	91,346
Goodwill	8,014	15,845
Other assets and receivables	329,427	307,117
Total assets	$ 18,652,976	$ 16,952,516
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 311,386	$ 520,070
Interest-bearing	12,580,501	13,541,390
Total deposits	12,891,887	14,061,460
Borrowings	3,568,721	964,127
Deferred and current tax liabilities, net	19,530	19,923
Other liabilities	233,731	205,922
Total liabilities	16,713,869	15,251,432
Commitments and Contingencies		
Shareholders' Equity		
Common stock, without par value		
Authorized - 75,000,000 shares		
Issued and outstanding - 45,764,023 shares at September 30, 2024 and 43,242,928 shares at December 31, 2023	239,448	140,365
Preferred stock, without par value - 5,000,000 total shares authorized		
7% Series A Preferred stock - $25 per share liquidation preference		
Authorized - no shares at September 30, 2024 and 3,500,000 shares at December 31, 2023		
Issued and outstanding - no shares at September 30, 2024 and 2,081,800 shares at December 31, 2023	—	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
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
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
Retained earnings	1,250,176	1,063,599
Accumulated other comprehensive income (loss)	96	(2,488)
Total shareholders' equity	1,939,107	1,701,084
Total liabilities and shareholders' equity	$ 18,652,976	$ 16,952,516

*Derived from audited consolidated financial statements

See notes to condensed consolidated financial statements.

Merchants Bancorp
Condensed Consolidated Statements of Income (Unaudited)
For the Three and Nine Months Ended September 30, 2024 and 2023
(In thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest Income				
Loans	$ 290,259	$ 266,561	$ 846,678	$ 684,743
Mortgage loans in process of securitization	4,062	2,583	8,826	7,358
Investment securities:				
Available for sale	14,855	6,182	44,027	14,012
Held to maturity	22,081	17,427	62,402	50,492
FHLB stock and other equity securities (dividends)	3,128	572	5,249	1,470
Other	4,543	3,351	14,192	7,964
Total interest income	338,928	296,676	981,374	766,039
Interest Expense				
Deposits	165,675	162,906	516,348	405,149
Borrowed funds	40,432	16,334	77,030	37,144
Total interest expense	206,107	179,240	593,378	442,293
Net Interest Income	132,821	117,436	387,996	323,746
Provision for credit losses	6,898	4,014	21,589	33,484
Net Interest Income After Provision for Credit Losses	125,923	113,422	366,407	290,262
Noninterest Income				
Gain on sale of loans	16,731	10,758	37,255	28,841
Loan servicing fees, net	(1,509)	17,384	28,720	28,360
Mortgage warehouse fees	1,620	1,858	4,126	5,751
Loss on sale of investments available for sale (includes $0, $0, $(108) and $0, respectively, related to accumulated other comprehensive loss reclassifications)	—	—	(108)	—
Syndication and asset management fees	1,834	2,368	10,370	7,476
Other income	(1,934)	3,700	8,604	9,786
Total noninterest income	16,742	36,068	88,967	80,214
Noninterest Expense				
Salaries and employee benefits	35,218	27,052	93,187	74,922
Loan expense	1,114	1,038	3,063	2,749
Occupancy and equipment	2,231	2,196	6,707	6,884
Professional fees	3,439	2,555	11,094	8,547
Deposit insurance expense	8,981	3,568	19,685	9,552
Technology expense	2,068	1,609	5,781	4,757
Other expense	8,267	4,912	21,093	14,611
Total noninterest expense	61,318	42,930	160,610	122,022
Income Before Income Taxes	81,347	106,560	294,764	248,454
Provision for income taxes (includes $0, $0, $26 and $0, respectively, of income tax benefit related to accumulated other comprehensive loss reclassifications)	20,074	25,056	70,044	46,693
Net Income	$ 61,273	$ 81,504	$ 224,720	$ 201,761
Dividends on preferred stock	(7,757)	(8,668)	(24,181)	(26,003)
Impact of preferred stock redemption	—	—	(1,823)	—
Net Income Available to Common Shareholders	53,516	72,836	198,716	175,758
Basic Earnings Per Share	$ 1.17	$ 1.68	$ 4.46	$ 4.07
Diluted Earnings Per Share	$ 1.17	$ 1.68	$ 4.45	$ 4.06
Weighted-Average Shares Outstanding				
Basic	45,759,667	43,238,724	44,549,432	43,218,125
Diluted	45,910,052	43,351,208	44,696,107	43,317,343

See notes to condensed consolidated financial statements.

Merchants Bancorp
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
For the Three and Nine Months Ended September 30, 2024 and 2023
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net Income	$ 61,273	$ 81,504	$ 224,720	$ 201,761
Other Comprehensive Income:				
Net unrealized gain on investment securities available for sale, net of tax expense of $(191), $(714), $(784) and $(2,050), respectively	606	2,282	2,502	5,767
Add: Reclassification adjustment for losses included in net income, net of tax benefit of $0, $0, $26 and $0, respectively	—	—	82	—
Other comprehensive income for the period	606	2,282	2,584	5,767
Comprehensive Income	$ 61,879	$ 83,786	$ 227,304	$ 207,528

See notes to condensed consolidated financial statements.

Merchants Bancorp
Condensed Consolidated Statement of Shareholders' Equity (Unaudited)
For the Three and Nine Months Ended September 30, 2024 and 2023
(In thousands, except share data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024		2023		2024		2023	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Common Stock								
Balance beginning of period	45,757,567	$ 238,492	43,237,300	$ 138,853	43,242,928	$ 140,365	43,113,127	$ 137,781
Distribution to employee stock ownership plan	-	-	-	-	23,414	997	33,293	810
Issuance of common stock, net of $ 5.5 million in offering expenses	-	-	-	-	2,400,000	97,655	-	-
Shares issued for stock compensation plans, net of taxes withheld to satisfy tax obligations	6,456	956	2,912	756	97,681	431	93,792	1,018
Balance end of period	45,764,023	239,448	43,240,212	139,609	45,764,023	239,448	43,240,212	139,609
7% Series A Preferred Stock								
Balance beginning of period	-	-	2,081,800	50,221	2,081,800	50,221	2,081,800	50,221
Redemption of 7% Series A preferred stock	-	-	-	-	(2,081,800)	(50,221)	-	-
Balance end of period	-	-	2,081,800	50,221	-	-	2,081,800	50,221
6% Series B Preferred Stock								
Balance 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 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 and end of period	142,500	137,459	142,500	137,459	142,500	137,459	142,500	137,459
Retained Earnings								
Balance beginning of period		1,200,778		928,875		1,063,599		832,871
Net income		61,273		81,504		224,720		201,761
Dividends on 7% Series A preferred stock, $ 1.75 per share, annually		-		(911)		(910)		(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)		(2,939)		(8,817)		(8,817)
Dividends on common stock, $ 0.36 per share, annually in 2024 and $0.32 per share, annually in 2023		(4,118)		(3,459)		(12,139)		(10,377)
Impact of 7% Series A preferred stock redemption		-		-		(1,823)		-
Balance end of period		1,250,176		998,252		1,250,176		998,252
Accumulated Other Comprehensive Income (Loss)								
Balance beginning of period		(510)		(7,036)		(2,488)		(10,521)
Other comprehensive income		606		2,282		2,584		5,767
Balance end of period		96		(4,754)		96		(4,754)
Total shareholders' equity		$ 1,939,107		$ 1,632,715		$ 1,939,107		$ 1,632,715

See notes to condensed consolidated financial statements.

Merchants Bancorp
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 2024 and 2023
(In thousands)

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Operating activities:		
Net income	$ 224,720	$ 201,761
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	2,254	2,119
Provision for credit losses	21,589	33,484
Loss on sale of securities	108	—
Gain on sale of loans	(37,255)	(28,841)
Proceeds from sales of loans	20,431,500	15,530,422
Loans and participations originated and purchased for sale	(21,133,175)	(16,455,580)
Proceeds from sale of low-income housing tax credits	53,043	23,081
Purchases of low-income housing tax credits for sale	(56,006)	(44,106)
Change in servicing rights for paydowns and fair value adjustments	(5,573)	(6,729)
Net change in:		
Mortgage loans in process of securitization	(320,367)	(321,853)
Other assets and receivables	(16,512)	(13,383)
Other liabilities	7,647	(9,986)
Other	2,726	(3,123)
Net cash used in operating activities	(825,301)	(1,092,734)
Investing activities:		
Net change in securities purchased under agreements to resell	70	79
Purchases of securities available for sale	(501,610)	(631,676)
Purchases of securities held to maturity	(155,268)	(9,786)
Purchases of equity securities	(30,000)	—
Proceeds from the sale of securities available for sale	9,983	1,516
Proceeds from calls, maturities and paydowns of securities available for sale	663,756	339,995
Proceeds from calls, maturities and paydowns of securities held to maturity	139,045	116,062
Purchases of loans	(84,963)	(329,014)
Net change in loans receivable	(646,304)	(1,829,247)
Proceeds from loans held for sale previously classified as loans receivable	70,431	21,960
Purchase of FHLB stock	(105,866)	(9,089)
Proceeds from sale of FHLB stock	394	—
Purchases of premises and equipment	(12,116)	(3,459)
Purchase of limited partnership interests	(13,009)	(71,001)
Proceeds from sale of limited partnership interests	—	52,984
Net cash paid on sale of branches	(170,594)	—
Other investing activities	5,288	1,591
Net cash used in investing activities	(830,763)	(2,349,085)
Financing activities:		
Net change in deposits	(939,738)	2,935,993
Proceeds from borrowings	108,976,878	69,132,347
Repayment of borrowings	(106,356,226)	(68,615,360)
Proceeds from notes payable	6,878	60,000
Proceeds from issuance of common stock	97,655	—
Proceeds from credit linked notes	—	153,546
Payment of credit linked notes	(23,535)	(7,253)
Repurchase of preferred stock	(52,044)	—
Dividends	(36,320)	(36,380)
Net cash provided by financing activities	1,673,548	3,622,893
Net Change in Cash and Cash Equivalents	17,484	181,074
Cash and Cash Equivalents, Beginning of Period	584,422	226,164
Cash and Cash Equivalents, End of Period	$ 601,906	$ 407,238
Supplemental Cash Flows Information:		
Interest paid	$ 582,091	$ 415,920
Income taxes paid, net of refunds	58,763	50,076
Change in ROU assets due to lease renegotiation	(1,063)	—
ROU assets obtained in exchange for new operating lease liabilities	789	—
Transfer of loans to other real estate owned	90	—
Liabilities accrued for additions of premises and equipment	2,436	—
Securities received in securitization of loans sold	534,538	—
Transfer of loans from loans held for sale to loans receivable	61,500	377,460
Transfer of loans from loans receivable to loans held for sale	604,969	21,960

See notes to condensed consolidated financial statements.

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, 2023, which has been derived from audited financial statements, and unaudited condensed consolidated financial statements of the Company as of September 30, 2024 and for the three and nine months ended September 30, 2024 and 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, 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, 2024 and the results of operations for the three and nine months ended September 30, 2024 and 2023, and cash flows for the nine months ended September 30, 2024 and 2023. All interim amounts have not been audited and the results of operations for the three and nine months ended September 30, 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 enhanced the Company's ability to focus on its core business of single and multi-family mortgage lending and strategically aligned the branches with institutions that share a similar business model and allowed 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 first quarter of 2024.

Principles of Consolidation

The unaudited condensed consolidated financial statements as of and for the period ended September 30, 2024 and 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 ("ASU") Topic 810. Accordingly, the Company assesses the entities for potential consolidation as a variable interest entity ("VIE") 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 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, 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 6: Variable Interest Entities (VIEs)* for additional information about VIEs.

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

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 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. For additional information regarding significant accounting policies, see the Company's 2023 Annual Report on Form 10–K.

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. The balance of the notes as of September 30, 2024 was $100.3 million. As of September 30, 2024 and December 31, 2023, there was $45.7 million and $36.4 million, respectively, in restricted cash held in a separate account included in the total of interest-earning demand accounts on the Balance Sheet. Also see *Note 12: Borrowings.*

Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Reclassifications

Certain reclassifications may have been made to the 2023 financial statements to conform to the financial statement presentation as of and for the three and nine months ended September 30, 2024. These reclassifications had no effect on net income.

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:

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 149,153	$ 160	$ —	$ 149,313
Federal agencies	115,000	7	40	114,967
Mortgage-backed - Government Agency ("Agency") (2) - multi-family	5,808	—	—	5,808
Mortgage-backed - Non-Agency residential - fair value option (1)	461,514	—	—	461,514
Mortgage-backed - Agency - residential - fair value option (1)	221,461	—	—	221,461
Total securities available for sale	$ 952,936	$ 167	$ 40	$ 953,063
Securities held to maturity:				
Mortgage-backed - Non-Agency - multi-family	$ 660,126	$ —	$ 129	$ 659,997
Mortgage-backed - Non-Agency - residential	548,488	1,967	87	550,368
Mortgage-backed - Non-Agency - healthcare	534,538	—	—	534,538
Mortgage-backed - Agency - multi-family	11,895	—	595	11,300
Total securities held to maturity	$ 1,755,047	$ 1,967	$ 811	$ 1,756,203
FHLB and other equity securities (3)	$ 184,050			

(1) Fair value option securities represent securities which the Company has elected to carry at fair value with changes in the fair value recognized in earnings as they occur.
(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”).
(3) The Company reports the carrying value utilizing the measurement alternative election, reflecting any impairments or other adjustments if observable price changes occur for identical or similar investments of the same issuer.

Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

	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 - multi-family	12,016	—	822	11,194
Total securities held to maturity	$ 1,204,217	$ 973	$ 1,655	$ 1,203,535

(1) Fair value option securities represent securities which the Company has elected to carry at fair value with changes in the fair value recognized in earnings as they occur.
(2) Agency includes government sponsored agencies, such as Fannie Mae, Freddie Mac, and Ginnie Mae.

Accrued interest on securities available for sale totaled $ 4.5 million at September 30, 2024 and $ 6.7 million at December 31, 2023, respectively, and is excluded from the estimate of credit losses.

Accrued interest on securities held to maturity totaled $ 6.3 million at September 30, 2024 and $ 5.8 million at December 31, 2023, respectively, and is excluded from the estimate of credit losses.

The amortized cost and fair value of securities available for sale at September 30, 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, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:	(In thousands)			
Within one year	$ 164,153	$ 164,315	$ 308,474	$ 305,406
After one through five years	100,000	99,965	71,518	71,317
	264,153	264,280	379,992	376,723
Mortgage-backed - Agency - multi-family	5,808	5,808	14,465	14,467
Mortgage-backed - Non-Agency residential - fair value option	461,514	461,514	485,500	485,500
Mortgage-backed - Agency - residential - fair value option	221,461	221,461	236,997	236,997
	$ 952,936	$ 953,063	$ 1,116,954	$ 1,113,687
Securities held to maturity:				
Mortgage-backed - Non-Agency - multi-family	$ 660,126	$ 659,997	$ 719,662	$ 719,247
Mortgage-backed - Non-Agency - residential	548,488	550,368	472,539	473,094
Mortgage-backed - Non-Agency - healthcare	534,538	534,538	—	—
Mortgage-backed - Agency - multi-family	11,895	11,300	12,016	11,194
	$ 1,755,047	$ 1,756,203	$ 1,204,217	$ 1,203,535

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During the three months ended September 30, 2024, no securities available for sale were sold. During the nine months ended September 30, 2024, the Company received proceeds of $10.0 million and recognized a net loss of $108,000 from sales of securities available for sale. The $108,000 net loss consisted of $10,000 in gains and $118,000 of losses. During the three and nine months ended September 30, 2023, proceeds from sales of securities available for sale were $1.4 million and $1.5 million, respectively, and net gain was inconsequential.

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 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, 2024 and December 31, 2023:

	September 30, 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:						
Federal agencies	$ 74,960	$ 40	$ —	$ —	$ 74,960	$ 40
	$ 74,960	$ 40	$ —	$ —	$ 74,960	$ 40

	December 31, 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	$ 3,052	$ 6	$ 32,080	$ 332	$ 35,132	$ 338
Federal agencies	60,541	189	167,213	2,787	227,754	2,976
Mortgage-backed - Agency - multi-family	364	1	186	2	550	3
	$ 63,957	$ 196	$ 199,479	$ 3,121	$ 263,436	$ 3,317

Allowance for Credit Losses

For securities available for sale 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 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 securities available for sale 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 security available for sale 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 securities available for sale 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, 2024 and December 31, 2023.

Securities held to maturity are primarily comprised of non-agency mortgage-backed senior securities secured by multi-family, single-family or healthcare properties, and agency mortgage-backed securities secured by multi-family properties. The agency securities held to maturity are Ginnie 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-agency securities were purchased under securitization arrangements where a credit loss component was purchased by third party investors. 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-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 Fannie Mae and Freddie Mac participation certificates, all of which are pending settlement under firm investor commitments to purchase the securities, typically occurring within 30 days. The aggregate positive fair value adjustment recorded on mortgage loans in process of securitization was $0.9 million and $0.8 million as of September 30, 2024 and December 31, 2023, 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 allowance for credit losses on loans (“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 consolidated unaudited condensed balance sheets. Accrued interest on loans totaled $54.6 million and $60.4 million at September 30, 2024 and 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. Loans may be placed on nonaccrual or 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 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, which is no less than six months. 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 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.

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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 mortgage warehouse repurchase agreements to third parties 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 secured financing. The warehousing arrangement is secured by the underlying mortgages and a combination of deposits, personal guarantees, advance rates, and may be cross-collateralized with other loans. 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.

Loan Portfolio Summary

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

	September 30, 2024	December 31, 2023
	(In thousands)	
Mortgage warehouse repurchase agreements	$ 1,213,429	$ 752,468
Residential real estate(1)	1,317,234	1,324,305
Multi-family financing	4,456,129	4,006,160
Healthcare financing	1,733,674	2,356,689
Commercial and commercial real estate(2)(3)	1,548,689	1,643,081
Agricultural production and real estate	71,391	103,150
Consumer and margin loans	5,893	13,700
	10,346,439	10,199,553
Less:		
ACL-Loans	84,549	71,752
Loans Receivable	$ 10,261,890	$ 10,127,801

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

(2) Includes $0.9 billion and $1.1 billion of revolving lines of credit collateralized primarily by mortgage servicing rights as of September 30, 2024 and December 31, 2023, respectively.

(3) Includes only $19.3 million and $8.4 million of non-owner occupied commercial real estate as of September 30, 2024 and December 31, 2023, respectively.

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

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

As a secured repurchase agreement, collateral pledged to the Company secures each individual mortgage until the mortgage company sells the loan in the secondary market. A traditional secured warehouse 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 companies in warehouse, the sale of which is the expected source of repayment under a warehouse 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 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 One-Year Constant Maturity Treasury ("CMT"), plus a margin.

Multi-Family Financing (MF FIN): The Company specializes in originating multi-family financing that can be market rate or affordable. The portfolio includes loans for construction, acquisition, refinance, or permanent financing. Loans are typically secured by real estate mortgages, assignment of Low-Income Housing Tax Credits ("LIHTC"), and/or equity interest in the underlying properties. All loans are assessed and reviewed at a minimum based on borrower strength/experience, historical property performance, market trends, projected financial performance with regards to intended strategy, and source of repayment. Independent third-party reports are used to ensure legal conformity and support valuations of the assets. Exit strategies and sources of repayment are provided through the secondary market via governmental programs, strategic refinances, LIHTC equity installments, and cashflow from the properties. Repayment of these loans depends on the successful operation of a business or property and the 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 related market area. 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 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 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 mortgage servicing 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. Only 1% of total commercial and commercial real estate loans are made up of non-owner occupied commercial real estate loans.

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 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.

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Agricultural real estate loans included in this segment are typically structured with a one-year adjustable rate mortgage (“ARM”), three-year ARM or 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 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.

ACL-Loans

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 included in net interest income after provision for credit losses 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 loan balance, or a portion thereof, is uncollectible. 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. 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-Loans is believed to be adequate to absorb 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 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 ACL-Loans, the portfolio is segmented by loans with similar risk characteristics.

Loan Portfolio Segment	ACL-Loans Methodology
Mortgage warehouse 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 include the underlying collateral, type or purpose of the loan, and expected credit loss patterns. The initial estimation 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.

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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.

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, by loan portfolio segment, the activity in the ACL-Loans for the three and nine months ended September 30, 2024 and 2023:

	For the Three Months Ended September 30, 2024							
	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 3,616	$ 6,323	$ 34,412	$ 23,522	$ 12,591	$ 489	$ 75	$ 81,028
Provision for credit losses	(414)	129	12,745	(7,119)	209	13	11	5,574
Loans charged to the allowance	—	—	(1,933)	—	(127)	—	—	(2,060)
Recoveries of loans previously charged-off	—	2	—	—	5	—	—	7
Balance, end of period	$ 3,202	$ 6,454	$ 45,224	$ 16,403	$ 12,678	$ 502	$ 86	$ 84,549

	For the Three Months Ended September 30, 2023							
	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 3,361	$ 7,413	$ 24,701	$ 16,123	$ 10,695	$ 556	$ 137	$ 62,986
Provision for credit losses	(495)	207	1,121	1,876	1,123	34	2	3,868
Loans charged to the allowance	—	(21)	—	—	—	—	—	(21)
Recoveries of loans previously charged-off	—	—	—	—	31	—	—	31
Balance, end of period	$ 2,866	$ 7,599	$ 25,822	$ 17,999	$ 11,849	$ 590	$ 139	$ 66,864

The Company recorded a total provision for credit losses of $ 6.9 million for the three months ended September 30, 2024. The $6.9 million total provision for credit losses consisted of $ 5.6 million for the ACL-Loans as shown above, $2.1 million for the allowance for off-balance sheet credit exposures ("ACL-OBCE's"), net of $ 0.7 million for the release of non-contingent reserves related to a loan securitization.

The Company recorded a total provision for credit losses of $ 4.0 million for the three months ended September 30, 2023. The $4.0 million total provision for credit losses consisted of $ 3.9 million for the ACL-Loans as shown above and $0.1 million for the ACL-OBCE's.

	For the Nine Months Ended September 30, 2024							
	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 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	1,132	(829)	23,818	(6,049)	1,674	129	(71)	19,804
Loans charged to the allowance	—	—	(5,282)	—	(1,155)	—	—	(6,437)
Recoveries of loans previously charged-off	—	15	—	—	8	—	—	23
Balance, end of period	$ 3,202	$ 6,454	$ 45,224	$ 16,403	$ 12,678	$ 502	$ 86	$ 84,549

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	For the Nine Months Ended September 30, 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	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 Company recorded a total provision for credit losses of $ 21.6 million for the nine months ended September 30, 2024. The $21.6 million total provision for credit losses consisted of $ 19.2 million for the ACL-Loans, net of FMBI's ACL, as shown above, $3.1 million for the ACL-OBCE's, net of $ 0.7 million for the release of non-contingent reserves related to a loan securitization.

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 following table presents, by loan portfolio segment, the activity in the ACL-Loans, for the year-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

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 as of September 30, 2024 and December 31, 2023:

	September 30, 2024				
	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL-Loans Allocation
			(In thousands)		
RES RE	$ 5,807	$ —	$ —	$ 5,807	$ 32
MF FIN	188,090	—	693	188,783	12,689
HC FIN	79,907	—	—	79,907	5,793
CML & CRE	8,086	2,422	2,822	13,330	2,163
AG & AGRE	—	—	—	—	—
Total collateral dependent loans	$ 281,890	$ 2,422	$ 3,515	$ 287,827	$ 20,677

There have been no significant changes to the types of collateral securing the Company's collateral dependent loans compared to 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 as of and subsequent to 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 – Loans classified as Special Mention have potential weaknesses that deserve management's attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention loans are not adversely classified and do 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 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 and origination year as of September 30, 2024 and December 31, 2023:

	September 30, 2024							
	2024	2023	2022	2021	2020	Prior	Revolving Loans	TOTAL
	(In thousands)							
MTG WHRA								
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,213,429	$ 1,213,429
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,213,429	$ 1,213,429
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
RES RE								
Pass	$ 26,226	$ 33,316	$ 8,292	$ 6,248	$20,565	$ 6,729	$ 1,210,051	$ 1,311,427
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	22	—	—	216	5,569	5,807
Total	$ 26,226	$ 33,316	$ 8,314	$ 6,248	$20,565	$ 6,945	$ 1,215,620	$ 1,317,234
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
MF FIN								
Pass	$ 675,638	$ 656,994	$ 524,597	$103,168	$ 6,741	$34,887	$ 1,979,565	$ 3,981,590
Special Mention	72,980	105,077	70,917	—	—	239	36,544	285,757
Substandard	38,546	57,621	73,094	2,553	—	—	16,968	188,782
Total	$ 787,164	$ 819,692	$ 668,608	$105,721	$ 6,741	$35,126	$ 2,033,077	$ 4,456,129
Charge-offs	$ —	$ 870	$ 4,412	$ —	$ —	$ —	$ —	$ 5,282
HC FIN								
Pass	$ 380,640	$ 183,140	$ 729,991	$ 54,398	$ —	$ —	$ 240,701	$ 1,588,870
Special Mention	14,168	—	6,265	—	—	—	44,463	64,896
Substandard	14,349	25,600	3,200	28,458	—	—	8,301	79,908
Total	$ 409,157	$ 208,740	$ 739,456	$ 82,856	$ —	$ —	$ 293,465	$ 1,733,674
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CML & CRE								
Pass	$ 48,065	$ 46,498	$ 111,338	$ 57,605	$17,582	$19,800	$ 1,233,717	$ 1,534,605
Special Mention	—	—	60	444	—	—	250	754
Substandard	—	108	190	8,882	793	104	3,253	13,330
Total	$ 48,065	$ 46,606	$ 111,588	$ 66,931	$18,375	$19,904	$ 1,237,220	$ 1,548,689
Charge-offs	$ —	$ —	$ 173	$ 982	$ —	$ —	$ —	$ 1,155
AG & AGRE								
Pass	$ 15,653	$ 7,115	$ 4,768	$ 2,579	$ 8,440	$14,548	$ 18,288	$ 71,391
Total	$ 15,653	$ 7,115	$ 4,768	$ 2,579	$ 8,440	$14,548	$ 18,288	$ 71,391
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CON & MAR								
Pass	$ 824	$ 84	$ 22	$ 11	$ —	$ 4,186	$ 766	$ 5,893
Total	$ 824	$ 84	$ 22	$ 11	$ —	$ 4,186	$ 766	$ 5,893
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total Pass	$1,147,046	$ 927,147	$1,379,008	$224,009	$53,328	$80,150	$ 5,896,517	$ 9,707,205
Total Special Mention	$ 87,148	$ 105,077	$ 77,242	$ 444	$ —	$ 239	$ 81,257	$ 351,407
Total Substandard	$ 52,895	$ 83,329	$ 76,506	$ 39,893	$ 793	$ 320	$ 34,091	$ 287,827
Total Doubtful	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total Loans	$1,287,089	$1,115,553	$1,532,756	$264,346	$54,121	$80,709	$ 6,011,865	$10,346,439
Total Charge-offs	$ —	$ 870	$ 4,585	$ 982	$ —	$ —	$ —	$ 6,437

The table above does not include one multi-family loan, rated as Special Mention, totaling $ 56.5 million and classified as held for sale at September 30, 2024. The Company had two loans rated as Pass totaling $ 0.5 million convert from revolving to term loans during the nine months ended September 30, 2024.

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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

There were no material revolving loans converted to term loans for the year ended December 31, 2023.

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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, 2024 and December 31, 2023.

	September 30, 2024					
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
MTG WHRA	$ —	$ —	$ —	$ —	$ 1,213,429	$ 1,213,429
RES RE	2,302	—	1,941	4,243	1,312,991	1,317,234
MF FIN	27,988	29,444	128,996	186,428	4,269,701	4,456,129
HC FIN	—	—	62,359	62,359	1,671,315	1,733,674
CML & CRE	120	—	4,132	4,252	1,544,437	1,548,689
AG & AGRE	—	170	7	177	71,214	71,391
CON & MAR	—	—	—	—	5,893	5,893
	$ 30,410	$ 29,614	$ 197,435	$ 257,459	$ 10,088,980	$ 10,346,439

The table above does not include one healthcare loan of $ 30.1 million, 30-59 days past due, three multi-family loans totaling $93.2 million, 60-89 days past due, and one residential real estate loan of $ 0.1 million, 90+ days past due, classified as held for sale at September 30, 2024.

	December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
MTG WHRA	$ —	$ —	$ —	$ —	$ 752,468	$ 752,468
RES RE	4,557	—	2,379	6,936	1,317,369	1,324,305
MF FIN	38,218	11,055	39,609	88,882	3,917,278	4,006,160
HC FIN	—	47,275	35,999	83,274	2,273,415	2,356,689
CML & CRE	172	393	3,665	4,230	1,638,851	1,643,081
AG & AGRE	27	11	147	185	102,965	103,150
CON & MAR	1	3	18	22	13,678	13,700
	$ 42,975	$ 58,737	$ 81,817	$ 183,529	$ 10,016,024	$ 10,199,553

The above table does not include one multi-family loan, 30-59 days past due, classified as held for sale at December 31, 2023, totaling $16.5 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 modified loans which are on nonaccrual status prior to being 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. Generally, this is at 90 days or more past due. The amount of interest income recognized on nonaccrual financial assets during the three and nine months ended September 30, 2024 was $0.1 million and $1.0 million, respectively, which was collected when a loan was paid off, and was immaterial for the three and nine months ended September 30, 2023.

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

	September 30, 2024		December 31, 2023	
	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing
	(In thousands)			
RES RE	$ 5,294	$ —	$ 1,486	$ 894
MF FIN	128,996	—	39,608	—
HC FIN	72,472	—	28,783	7,216
CML & CRE	4,049	84	3,820	43
AG & AGRE	—	7	147	—
CON & MAR	—	—	3	15
	$ 210,811	$ 91	$ 73,847	$ 8,168

The table above does not include one residential real estate loan, classified as held for sale, on nonaccrual at September 30, 2024, totaling $0.1 million.

The Company did not have any nonaccrual loans without an estimated ACL at September 30, 2024 or December 31, 2023. There were $19.2 million in specific reserves associated with nonaccrual loans totaling $ 97.2 million at September 30, 2024 and there were $5.4 million in specific reserves associated with nonaccrual loans totaling $ 20.7 million at December 31, 2023, excluding the reserves associated with FMBI, whose branches were sold in January 2024.

In addition to elevated reserves for credit losses on loans, the Company has been making additional efforts to minimize its credit risk through loan sale and securitization activities since 2019. In April 2023 and March 2024, the Company strategically entered into credit protection arrangements through a credit linked note and credit default swap, respectively, for $1.7 billion in loans to reduce our risk of losses with incremental coverage of approximately 14% on those covered loans. The balance of loans in those covered portfolios as of September 30, 2024 was $1.3 billion. For additional information see *Note 8: Derivative Financial Instructions* and the Company's 2023 Annual Report on Form 10–K and Form 10-Q for March 31, 2024.

Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Company modifies loans to borrowers in financial difficulty 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 modifications on one loan. Typically, one type of modification, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another modification, such as principal forgiveness, may be granted, but is rare.

The following table presents the amortized cost basis of loans at September 30, 2024 that were both experiencing financial difficulty and modified during the three and nine months ended September 30, 2024, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as

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compared to the amortized cost basis of each class of financing receivable is also presented below:

	For the Three Months Ended September 30, 2024				For the Nine Months Ended September 30, 2024			
	Payment Delay	Term Extension	Total Class of Financing Receivable	% of Total Class of Financing Receivable	Payment Delay	Term Extension	Total Class of Financing Receivable	% of Total Class of Financing Receivable
	(In thousands)				(In thousands)			
MF FIN	$ 4,346	$ 13,400	$ 17,746	N/M %	$ 38,545	$ 55,853	$ 94,398	N/M %
HC FIN	10,114	—	10,114	N/M %	10,114	4,235	14,349	N/M %
Total	$ 14,460	$ 13,400	$ 27,860	N/M %	$ 48,659	$ 60,088	$ 108,747	N/M %

	For the Three Months Ended September 30, 2023				For the Nine Months Ended September 30, 2023			
	Payment Delay	Term Extension	Total Class of Financing Receivable	% of Total Class of Financing Receivable	Payment Delay	Term Extension	Total Class of Financing Receivable	% of Total Class of Financing Receivable
	(In thousands)				(In thousands)			
CML & CRE	$ 3,778	$ —	$ 3,778	N/M %	$ 3,778	$ —	$ 3,778	N/M %
Total	$ 3,778	$ —	$ 3,778	N/M %	$ 3,778	$ —	$ 3,778	N/M %

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty. Loans with risk classifications of pass and special mention were part of the pooled loan ACL analysis. Loans classified as substandard or worse were individually evaluated for impairment and specific reserves were established, if applicable. During the three and nine months ended September 30, 2024, no specific reserves were recorded on troubled loan modifications disclosed herein. The Company has committed to lend no additional amounts to the borrowers included in the table below.

	For the Three Months Ended September 30, 2024	For the Nine Months Ended September 30, 2024
	Term Extension	
Loan Type	Financial Effect	Financial Effect
MF FIN	Added a weighted average 4 months to the life of loans.	Added a weighted average 22 months to the life of loans.
HC FIN		Added a weighted average 12 months to the life of loans.
	Payment Delay	
	Financial Effect	Financial Effect
MF FIN	Forbearance average of 5 months.	Forbearance average of 7 months.
HC FIN	Forbearance average of 6 months.	Forbearance average of 6 months.

	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2023
	Payment Delay	
	Financial Effect	Financial Effect
CML & CRE	Forbearance average of 12 months.	Forbearance average of 12 months.

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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 as of September 30, 2024:

	Current	30 - 89 Days Past Due	90+ Days Past Due
MF FIN	$ 63,602	$ —	$ 30,796
HC FIN	14,349	—	—
Total	$ 77,951	$ —	$ 30,796

Multi-family loans totaling $30.8 million that had prior forbearance modifications defaulted during the three and nine months ended September 30, 2024.

Foreclosures

There were $1.9 million and zero in residential loans in process of foreclosure as of September 30, 2024 and December 31, 2023.

Significant Loan Sales

Freddie Mac Q Series Securitization – 2024 Activity

On April 30, 2024, the Company completed a $324.6 million securitization of 13 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 $1.4 million gain on sale was recognized. The Company was retained as the mortgage sub-servicer for Freddie Mac on the entire $324.6 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 $1.3 million was established.

Loan Sale and Securitization – 2024 Activity

On September 26, 2024, the Company completed a private securitization by which a $ 628.9 million portfolio of healthcare bridge loans were sold into a real estate mortgage investment conduit ("REMIC") and ultimately sold to investors as securities. The Company purchased the senior security for a total of $534.5 million and classified it as a security held to maturity. An unaffiliated, third-party institutional investor purchased the remaining subordinate interests and maintains the first-loss position on 15.0% of the losses in the loan portfolio. This transaction provided the Company an avenue to enhance capital efficiency and minimize credit risk on the balance sheet.

As part of the securitization transaction, the Company will be both Master Servicer and Special Servicer of the loans. As Master Servicer and Special Servicer, the Company will have obligations to collect and remit payments of principal and interest, manage payments of taxes and insurance, and otherwise administer the underlying loans.

Beyond 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 the securitization, the Company received proceeds on loans, net of the acquired securities, of $94.0 million. No allowance for credit losses was recognized in connection with purchase of the security, in accordance with ASC 326. However, the $4.4 million allowance for credit losses associated with the loans sold was released through the provision for credit losses.

The transfer of these loans was accounted for as a sale for financial reporting purposes, in accordance with ASC 860, and a $0.6 million net loss on sale was recognized.

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Loans Purchased

The Company purchased $85.0 million and $329.0 million of loans during the nine months ended September 30, 2024 and 2023, respectively.

Loan Guarantees

The Company holds instruments, in the normal course of business with customers, that are considered financial guarantees. Standby letters of credit guarantees are issued in connection with agreements made by customers to counterparties. Standby letters of credit are contingent upon failure of the customer to perform the terms of the underlying contract. Credit risk associated with the standby letters of credit is essentially the same as that associated with extending loans to customers and is subject to normal credit policies. The term of these standby letters of credit range from less than one to nine years. These commitments are not recorded in the consolidated financial statements. The total for these guarantees at September 30, 2024 and December 31, 2023 was $167.7 million and $98.7 million, respectively.

Note 5: Qualified Affordable Housing

The Company invests in low-income housing tax credit ("LIHTC") limited liability entities. The purpose of these investments is to earn an adequate return of capital through the receipt of low income housing tax credits. These investments are included in other assets on the Consolidated Balance sheet, with any unfunded commitments included in other liabilities. The investments are amortized as a component of income tax expense.

		September 30, 2024		December 31, 2023	
		(In thousands)			
Investment	**Accounting Method**	**Investment**	**Unfunded Commitments**	**Investment**	**Unfunded Commitments**
LIHTC	Proportional amortization	$ 101,219	$ 75,621	$ 78,718	$ 61,411
LIHTC [1]	Lower of cost or market	35,280	—	52,675	—
LIHTC subtotal		$ 136,499	$ 75,621	$ 131,393	$ 61,411
Joint Venture	Consolidated	11,022	—	11,000	—
Total		$ 147,521	$ 75,621	$ 142,393	$ 61,411

(1) LIHTC projects held for future syndication.

The following table summarizes the amortization expense and tax credits recognized for the Company's low-income housing investments for the three and nine months ended September 30, 2024 and 2023. Amortization expense and tax credits are included in our income tax expense.

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Amortization expense	$ 3,406	$ 1,770	$ 8,551	$ 4,413
Tax credits recognized	$ 3,789	$ 1,857	$ 10,032	$ 4,585

Note 6: 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:

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- 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.

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 REMIC trusts as VIEs that were established in conjunction with multi-family and healthcare loan sales and securitization transactions. 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, 2024 the Company determined it was not the primary beneficiary for most of its VIEs, primarily because the Company did not have control or 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 considered as part of this ongoing assessment.

The table below reflects the assets and liabilities of the VIEs as well as the maximum exposure to loss in connection with unconsolidated VIEs at September 30, 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 the unaudited condensed consolidated balance sheet. Also included in the maximum loss exposure are bridge loans to VIEs that are included in loans receivable. Although the REMIC trusts are not recognized on the balance sheet, the maximum exposure to loss is the carrying value of the securities acquired as part of the securitization transactions.

Assets	**Investments in VIEs**	**Bridge loans to VIEs**	**Securities of VIEs**	**Maximum Exposure to Loss**	**Liabilities for VIEs**
			(In thousands)		
September 30, 2024					
Low-income housing tax credit investments	$ 157,976	$ 209,368	$ —	$ 367,344	$ 71,457
Debt funds	32,544	78,487	—	111,031	2,752
Off-balance-sheet REMIC trusts	—	24,777	1,743,152	1,767,929	—
Total Unconsolidated VIEs	$ 190,520	$ 312,632	$ 1,743,152	$ 2,246,304	$ 74,209
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 7: 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

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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 September 30, 2024 and December 31, 2023, that the Company and Merchants Bank met all capital adequacy requirements. For additional information regarding dividend restrictions, see the Company's 2023 Annual Report on Form 10–K.

As of September 30, 2024 and 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 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 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, 2024						
Total capital[1] (to risk-weighted assets)						
Company	$ 2,029,408	12.2 %	$ 1,750,457	10.5 %	$ —	N/A %
Merchants Bank	1,998,836	12.0 %	1,749,216	10.5 %	1,665,920	10.0
Tier I capital[1] (to risk-weighted assets)						
Company	1,930,145	11.6 %	1,417,037	8.5 %	—	N/A %
Merchants Bank	1,897,668	11.4 %	1,416,032	8.5 %	1,332,736	8.0
Common Equity Tier I capital[1] (to risk-weighted assets)						
Company	1,480,759	8.9 %	1,166,971	7.0 %	—	N/A %
Merchants Bank	1,897,668	11.4 %	1,166,144	7.0 %	1,082,848	6.5
Tier I capital[1] (to average assets)						
Company	1,930,145	10.5 %	915,126	5.0 %	—	N/A %
Merchants Bank	1,897,668	10.4 %	912,610	5.0 %	912,610	5.0

(1) As defined by regulatory agencies.

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	Amount	Ratio	Minimum Amount to be Well Capitalized with Basel III Buffer[1]		Minimum Amount To Be Well Capitalized[1]	
			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.

Note 8: Derivative Financial Instruments

The Company uses non-hedging designated, 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.

Internal Interest Rate 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 also been included in gain on sale.

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 securities available for sale. 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 options and floors have been included in other noninterest income.

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. The collateral is not included in the Company's unaudited condensed consolidated balance sheets. There was no gain or loss associated with the credit default swap valuation as of September 30, 2024. Any future changes in the fair market value of this instrument will be included in other noninterest expense.

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 expense 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, interest rate floors, and credit derivatives utilized by the Company at September 30, 2024 and December 31, 2023. This table excludes the fair market value adjustment on loans associated with these derivatives.

	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
		(In thousands)		
September 30, 2024				
Interest rate lock commitments	$ 37,586	Other assets/liabilities	$ 141	$ 51
Forward contracts	46,475	Other assets/liabilities	46	143
Interest rate swaps	57,466	Other assets/liabilities	1,779	—
Put options	703,853	Other assets	20,878	—
Interest rate floors	1,235,788	Other assets	1,431	—
Credit derivatives	75,474	Other liabilities	—	—
			$ 24,275	$ 194

	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
		(In thousands)		
December 31, 2023				
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

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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 and nine months ended September 30, 2024 and 2023.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Derivative (loss) gain included in gain on sale of loans:				
Interest rate lock commitments	$ 47	$ (123)	$ (46)	$ (102)
Forward contracts (includes pair-off settlements)	(1,161)	595	(782)	875
Interest rates swaps	(2,082)	2,501	(460)	2,762
Net (loss) gain	$ (3,196)	$ 2,973	$ (1,288)	$ 3,535
Derivative loss included in other income:				
Put options	$ (16,078)	$ —	$ (4,998)	$ —
Interest rate floors	(7,693)	—	(5,145)	—
Net loss	$ (23,771)	$ —	$ (10,143)	$ —

Derivatives on Behalf of Customers

The Company offers derivative contracts to some customers in connection with their risk management needs. These derivatives include interest rate swap, cap, and floor arrangements. The Company manages the risk associated with these contracts by entering into an equal and offsetting back-to-back 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 would be recorded 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 back-to-back derivatives on behalf of customers were recorded in the unaudited condensed consolidated balance sheets as follows:

	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
		(In thousands)		
September 30, 2024	$ 723,966	Other assets/liabilities	$ 677	$ 677
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,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Gross swap gains	$ 9,211	$ 2,111	$ 11,749	$ 8,547
Gross swap losses	9,211	2,111	11,749	8,547
Net swap gains (losses)	$ —	$ —	$ —	$ —

The Company pledged $260,000 in collateral to secure its obligations under swap contracts at both September 30, 2024 and December 31, 2023.

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Note 9: 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, 2024 and December 31, 2023:

		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)**
	(In thousands)			
September 30, 2024				
Mortgage loans in process of securitization	$ 430,966	$ —	$ 430,966	$ —
Securities available for sale:				
Treasury notes	149,313	149,313	—	—
Federal agencies	114,967	—	114,967	—
Mortgage-backed - Agency	5,808	—	5,808	—
Mortgage-backed - Non-Agency residential - fair value option	461,514	—	—	461,514
Mortgage-backed - Agency - fair value option	221,461	—	221,461	—
Loans held for sale	91,084	—	91,084	—
Servicing rights	177,327	—	—	177,327
Derivative assets:				
Interest rate lock commitments	141	—	—	141
Forward contracts	46	—	46	—
Interest rate swaps	1,779	—	1,779	—
Interest rate swaps, caps and floors (back-to-back)	677	—	677	—
Put options	20,878	—	4,881	15,997
Interest rate floors	1,431	—	—	1,431
Derivative liabilities:				
Interest rate lock commitments	51	—	—	51
Forward contracts	143	—	143	—
Interest rate swaps, caps and floors (back-to-back)	677	—	677	—
December 31, 2023				
Mortgage loans in process of securitization	$ 110,599	$ —	$ 110,599	$ —
Securities available for sale:				
Treasury notes	128,968	128,968	—	—
Federal agencies	247,755	—	247,755	—
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	86,663	—	86,663	—
Servicing rights	158,457	—	—	158,457
Derivative assets:				
Interest rate lock commitments	140	—	—	140
Forward contracts	4	—	4	—
Interest rate swaps	2,610	—	2,610	—
Interest rate swaps, caps and floors (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, caps and floors (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 months ended September 30, 2024 and the year ended 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.

The Company values its assets and liabilities in the principal market where it sells the particular asset or transfers the liability with the greatest volume and level of activity. In the absence of an active market, the value is based on the most advantageous market for the asset or liability.

Mortgage Loans in Process of Securitization, 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 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, caps, and floors (back-to-back) – The Company estimates the fair value of these derivatives made in relation to specific contracts with customers based on prices that are obtained from a third party that uses observable market inputs, thereby supporting a Level 2 classification.

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

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 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 derived from inputs, including credit spreads that are not readily observable and, thus, are classified as Level 3 on the hierarchy. These valuations are estimated by a third party.

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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,	
	2024	2023	2024	2023
	(In thousands)			
Servicing rights				
Balance, beginning of period	$ 178,776	$ 147,288	$ 158,457	$ 146,248
Additions				
Originated servicing	7,370	4,867	13,297	9,164
Subtractions				
Paydowns	(2,090)	(1,660)	(6,729)	(5,431)
Changes in fair value	(6,729)	11,646	12,302	12,160
Balance, end of period	$ 177,327	$ 162,141	$ 177,327	$ 162,141
Securities available for sale - Mortgage-backed - Non-Agency residential - fair value option				
Balance, beginning of period	$ 462,627	$ —	$ 485,500	$ —
Paydowns	(9,773)	—	(26,643)	—
Changes in fair value	8,660	—	2,657	—
Balance, end of period	$ 461,514	$ —	$ 461,514	$ —
Derivative assets - put options				
Balance, beginning of period	$ 24,657	$ —	$ 18,654	$ —
Changes in fair value	(8,660)	—	(2,657)	—
Balance, end of period	$ 15,997	$ —	$ 15,997	$ —
Derivative assets - interest rate floors				
Balance, beginning of period	$ 9,124	$ —	$ 6,576	$ —
Changes in fair value	(7,693)	—	(5,145)	—
Balance, end of period	$ 1,431	$ —	$ 1,431	$ —
Derivative assets - interest rate lock commitments				
Balance, beginning of period	$ 170	$ 94	$ 140	$ 28
Changes in fair value	(29)	(50)	1	16
Balance, end of period	$ 141	$ 44	$ 141	$ 44
Derivative liabilities - interest rate lock commitments				
Balance, beginning of period	$ 127	$ 68	$ 4	$ 23
Changes in fair value	(76)	73	47	118
Balance, end of period	$ 51	$ 141	$ 51	$ 141

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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, 2024 and December 31, 2023.

Assets	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, 2024				
Collateral dependent loans	$ 76,053	$ —	$ —	$ 76,053
Other real estate owned	896	—	—	896
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 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 classified as substandard, 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.

Other Real Estate Owned

The estimated fair value of other real estate owned is usually on the appraised fair value of the collateral or in certain circumstances on sales agreements, and in all cases net of estimated cost to sell. Other real estate owned is 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 other real estate owned are obtained when the loan is in the process of foreclosure 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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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
			(Dollars in thousands)		
At September 30, 2024:					
Securities available for sale - Mortgage-backed - Non-Agency residential - fair value option	$ 461,514	Discounted cash flow	Market credit spread	3%	3%
Collateral dependent loans	$ 76,053	Market comparable properties	Marketability discount and costs to sell	0% - 74%	8%
Other real estate owned	$ 896	Market comparable properties	Marketability discount and costs to sell	0%	0%
Servicing rights - Multi-family	$ 136,423	Discounted cash flow	Discount rate	8% - 13%	9%
			Constant prepayment rate	0% - 62%	7%
			Earnings rate on escrows	3%	3%
Servicing rights - Single-family	$ 32,074	Discounted cash flow	Discount rate	10% - 11%	10%
			Constant prepayment rate	7% - 16%	8%
Servicing rights - Healthcare	$ 4,297	Discounted cash flow	Discount rate	13%	13%
			Constant prepayment rate	1% - 2%	1%
			Earnings rate on escrows	3%	3%
Servicing rights - SBA	$ 4,533	Discounted cash flow	Discount rate	16%	16%
			Constant prepayment rate	3% - 22%	13%
Derivative assets:					
Interest rate lock commitments	$ 141	Discounted cash flow	Loan closing rates	54% - 99%	78%
Put options	$ 15,997	Intrinsic option value	Market credit spread	3%	3%
Interest rate floors	$ 1,431	Discounted cash flow	Discount rate	0%-7%	7%
Derivative liabilities - interest rate lock commitments	$ 51	Discounted cash flow	Loan closing rates	54% - 99%	78%
At December 31, 2023:					
Securities available for sale - Mortgage-backed - Non-Agency residential - fair value option	$ 485,500	Discounted cash flow	Market credit spread	2%	2%
Collateral dependent loans	$ 47,026	Market comparable properties	Marketability discount and costs to sell	0% - 100%	2%
Servicing rights - Multi-family	$ 122,218	Discounted cash flow	Discount rate	8% - 13%	9%
			Constant prepayment rate	0% - 50%	7%
			Earnings rate on escrows	4%	4%
Servicing rights - Single-family	$ 30,959	Discounted cash flow	Discount rate	10% - 11%	10%
			Constant prepayment rate	6% - 16%	7%
Servicing rights - SBA	$ 5,280	Discounted cash flow	Discount rate	16%	16%
			Constant prepayment rate	3% - 14%	9%
Derivative assets:					
Interest rate lock commitments	$ 140	Discounted cash flow	Loan closing rates	45% - 99%	78%
Put options	$ 18,654	Intrinsic option value	Market credit spread	2%	2%
Interest rate floors	$ 6,576	Discounted cash flow	Discount rate	6%-7%	7%
Derivative liabilities - interest rate lock commitments	$ 4	Discounted cash flow	Loan closing rates	45% - 99%	78%

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.

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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.

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.

Collateral Dependent Loans and Other Real Estate Owned

The significant unobservable inputs used in the fair value measurement of the Company's collateral dependent loans and other real estate owned is based on liquidation amounts of the underlying collateral using the most recently available appraisals with adjustments made for a marketability discount and costs to sell.

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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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, 2024 and 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, 2024					
Financial assets:					
Cash and cash equivalents	$ 601,906	$ 601,906	$ 601,906	$ —	$ —
Securities purchased under agreements to resell	3,279	3,279	—	3,279	—
Securities held to maturity	1,755,047	1,756,203	—	561,668	1,194,535
FHLB stock and other equity securities	184,050	184,050	—	154,050	30,000
Loans held for sale	3,717,150	3,717,150	—	3,717,150	—
Loans receivable, net	10,261,890	10,249,659	—	—	10,249,659
Interest receivable	86,612	86,612	—	86,612	—
Financial liabilities:					
Deposits	12,891,887	12,902,870	8,731,301	4,171,569	—
Short-term subordinated debt	71,800	71,800	—	71,800	—
FHLB advances	3,372,044	3,371,664	—	3,371,664	—
Other borrowing	27,934	27,934	—	27,934	—
Credit linked notes	96,943	96,942	—	96,942	—
Interest payable	54,709	54,709	—	54,709	—
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	—

Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 10: Leases

The Company has operating leases for various locations with terms ranging from one month to seven years. Some operating leases include options to extend. The extensions were included in the right-of-use asset if the likelihood of 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 $ 8.3 million and $10.1 million as of September 30, 2024 and December 31, 2023, respectively, and operating lease right-of-use liabilities of $9.3 million and $11.3 million as of September 30, 2024 and December 31, 2023, respectively.

Unaudited condensed consolidated balance sheet, income statement and cash flow detail regarding operating leases follows:

	September 30, 2024		December 31, 2023	
Balance Sheet	(In thousands)			
Operating lease right-of-of use asset (in other assets)	$	8,280	$	10,060
Operating lease liability (in other liabilities)		9,303		11,251
Weighted average remaining lease term (years)		4.7		6.0
Weighted average discount rate		3.36%		2.89%
Maturities of lease liabilities:				
One year or less	$	2,310	$	2,441
Year two		2,202		2,064
Year three		2,159		2,100
Year four		1,620		2,046
Year five		1,080		1,438
Thereafter		693		2,128
Total future minimum lease payments		10,064		12,217
Less: imputed interest		761		966
Total	$	9,303	$	11,251

	Three Months Ended September 30, 2024		Three Months Ended September 30, 2023	
Income Statement	(In thousands)			
Components of lease expense:				
Operating lease cost (in occupancy and equipment expense)	$	652	$	591

	Nine Months Ended September 30, 2024		Nine Months Ended September 30, 2023	
Income Statement	(In thousands)			
Components of lease expense:				
Operating lease cost (in occupancy and equipment expense)	$	2,021	$	1,840

	Nine Months Ended September 30, 2024		Nine Months Ended September 30, 2023	
Cash Flow Statement	(In thousands)			
Supplemental cash flow information:				
Operating cash flows from operating leases	$	1,881	$	1,506

Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 11: Deposits

Deposits were comprised of the following at September 30, 2024 and December 31, 2023:

	September 30, 2024	December 31, 2023
	(In thousands)	
Noninterest-bearing deposits		
Demand deposits	$ 311,386	$ 520,070
Total noninterest-bearing deposits	311,386	520,070
Interest-bearing deposits		
Demand deposits	$ 5,439,543	$ 5,381,067
Savings deposits	2,980,372	2,992,921
Certificates of deposit	4,160,586	5,167,402
Total interest-bearing deposits	12,580,501	13,541,390
Total deposits	$ 12,891,887	$ 14,061,460

Maturities for certificates of deposit are as follows:

	September 30, 2024
	(In thousands)
Due within one year	$ 4,056,971
Due in one year to two years	89,742
Due in two years to three years	13,873
Due in three years to four years	—
Due in four years to five years	—
Due in five years to six years	—
	$ 4,160,586

Brokered deposit amounts at September 30, 2024 and December 31, 2023, were as follows:

	September 30, 2024	December 31, 2023
	(In thousands)	
Brokered certificates of deposit	$ 2,796,547	$ 4,465,825
Brokered savings deposits	1,352	589
Brokered deposit on demand accounts	—	1,504,230
	$ 2,797,899	$ 5,970,644

Note 12: Borrowings

Borrowings were comprised of the following at September 30, 2024 and December 31, 2023:

	September 30, 2024	December 31, 2023
	(In thousands)	
Short-term subordinated debt	$ 71,800	$ 64,922
FHLB advances	3,372,044	771,392
American Financial Exchange borrowing	20,000	—
Credit linked notes, net of debt discount	96,943	119,879
Other borrowings	7,934	7,934
Total borrowings	$ 3,568,721	$ 964,127

Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

On August 26, 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 $2.0 billion as of September 30, 2024, and matures on November 25, 2024. The variable interest rate is based on the Federal Funds effective rate, plus 15 basis points, which was 4.98% on September 30, 2024. The FHLB has a put option to cancel the agreement 60 days after the initial execution date and the Company has a call option to cancel the agreement at any time, with one day's notice.

Note 13: Earnings Per Share

Earnings per share were computed as follows:

	Three Month Periods Ended September 30,					
	2024			2023		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands, except share data)					
Net income	$ 61,273			$ 81,504		
Dividends on preferred stock	(7,757)			(8,668)		
Net income available to common shareholders	$ 53,516			$ 72,836		
Basic earnings per share		45,759,667	$ 1.17		43,238,724	$ 1.68
Effect of dilutive securities-restricted stock awards		150,385			112,484	
Diluted earnings per share		45,910,052	$ 1.17		43,351,208	$ 1.68

	Nine Month Periods Ended September 30,					
	2024			2023		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands, except share data)					
Net income	$224,720			$ 201,761		
Dividends on preferred stock	(24,181)			(26,003)		
Preferred stock redemption	(1,823)			—		
Net income available to common shareholders	$198,716			$ 175,758		
Basic earnings per share		44,549,432	$ 4.46		43,218,125	$ 4.07
Effect of dilutive securities-restricted stock awards		146,675			99,218	
Diluted earnings per share		44,696,107	$ 4.45		43,317,343	$ 4.06

Note 14: Common Stock

Public Offerings of Common Stock:

On May 13, 2024, the Company issued 2,400,000 shares of the Company's common stock, without par value, at a public offering price of $43.00 per share in an underwritten public offering. The aggregate gross offering proceeds for the shares issued by the Company was $103.2 million, and after deducting underwriting discounts, commissions, and offering expenses of $5.5 million paid to third parties, the Company received total net proceeds of $ 97.7 million.

Note 15: 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, or $52 million, using cash on hand.

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 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.

On October 1, 2024, the dividends on the Series B Preferred stock started to accrue at a floating rate of 3-month SOFR plus 4.831% and will reset quarterly. The rate will be 9.42% for the fourth quarter 2024.

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 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.

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 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 16: 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 three months ended September 30, 2024 and 2023, the Company issued 3,446 and 0 shares, respectively. During the nine months ended September 30, 2024 and 2023, the Company issued 88,658 and 84,335 shares, 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. In 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 $70,000 per member, rounded up to the nearest whole share, to be effective as of January 1, 2024. Accordingly, there were 3,010 and 2,912 shares, issued to non-executive directors during the three months ended September 30, 2024 and 2023, respectively and there were 9,023 and 9,457 shares, issued to non-executive directors during the nine months ended September 30, 2024 and 2023, respectively.

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, 2024 and 2023. Expenses recognized for the contribution to the ESOP totaled $270,000 and $249,000 for the three months ended September 30, 2024 and 2023, respectively and totaled $ 843,000 and $768,000 for the nine months ended September 30, 2024 and 2023, respectively. The Company contributed 23,414 shares and 33,293 shares to the ESOP for the nine months ended September 30, 2024 and 2023, respectively.

Note 17: Segment Information

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 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 or LLCs and certain debt funds. All operations are domestic.

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Notes to Condensed Consolidated Financial Statements
(Unaudited)

The tables below present selected business segment financial information for the three and nine months ended September 30, 2024 and 2023.

Three Months Ended September 30, 2024	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Interest income	$ 1,159	$ 103,770	$ 229,586	$ 4,413	$ 338,928
Interest expense	20	70,727	136,158	(798)	206,107
Net interest income	1,139	33,043	93,428	5,211	132,821
Provision for credit losses	(741)	(709)	8,348	—	6,898
Net interest income after provision for credit losses	1,880	33,752	85,080	5,211	125,923
Noninterest income	35,439	(6,073)	(8,916)	(3,708)	16,742
Noninterest expense	25,747	6,591	16,964	12,016	61,318
Income (loss) before income taxes	11,572	21,088	59,200	(10,513)	81,347
Income taxes	3,504	5,148	14,217	(2,795)	20,074
Net income (loss)	$ 8,068	$ 15,940	$ 44,983	$ (7,718)	$ 61,273
Total assets	$ 453,281	$ 5,842,489	$ 12,035,581	$ 321,625	$ 18,652,976

Three Months Ended September 30, 2023	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(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

Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Nine Months Ended September 30, 2024	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Interest income	$ 4,040	$ 289,835	676,659	$ 10,840	$ 981,374
Interest expense	60	195,051	400,623	(2,356)	593,378
Net interest income	3,980	94,784	276,036	13,196	387,996
Provision for credit losses	(741)	1,226	21,104	—	21,589
Net interest income after provision for credit losses	4,721	93,558	254,932	13,196	366,407
Noninterest income	107,889	(1,010)	(7,293)	(10,619)	88,967
Noninterest expense	65,969	16,063	47,527	31,051	160,610
Income (loss) before income taxes	46,641	76,485	200,112	(28,474)	294,764
Income taxes	12,927	18,085	46,326	(7,294)	70,044
Net income (loss)	$ 33,714	$ 58,400	$ 153,786	$ (21,180)	$ 224,720
Total assets	$ 453,281	$ 5,842,489	$ 12,035,581	$ 321,625	$ 18,652,976

Nine Months Ended September 30, 2023	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
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

Note 18: 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.

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.

FASB ASU 2024-03 - Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses

In November 2024, the FASB issued an ASU update which is intended to provide more detailed information about specified categories of expenses (purchases of inventory, employee compensation, depreciation and amortization) included in certain expense captions presented on the face of our consolidated income statements.

The updates in ASU 2024-03 are effective for annual periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. 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.

Note 19: Subsequent Events

None.

Merchants Bancorp

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," 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, 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 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;
- 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 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;
- 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.

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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, 2024 and results of operations for the three and nine months ended September 30, 2024 and 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" and "us" refer to Merchants Bancorp and its consolidated subsidiaries, unless we indicate otherwise.

Financial Highlights for the Three Months Ended September 30, 2024

- Net income of $61.3 million decreased $20.2 million, or 25%, compared to the three months ended September 30, 2023. The decrease was primarily driven by an increase in specific reserves on loans as part of the allowance for credit losses and unfavorable fair market value adjustments to derivatives and servicing rights.

- Diluted earnings per share of $1.17 decreased 30% compared to the three months ended September 30, 2023.

- Tangible book value per common share of $32.38 increased 25% compared to $25.82 at September 30, 2023.

- Total assets of $18.7 billion increased 2% compared to June 30, 2024, and increased 10% compared to December 31, 2023.

- Loans receivable, net of allowance for credit losses on loans, of $10.3 billion, decreased $671.3 million, or 6%, compared to June 30, 2024, and increased $134.1 million, or 1%, compared to December 31, 2023.

- In September 2024 the Company sold $629 million of healthcare bridge loans into a private securitization via a real estate mortgage investment conduit (REMIC). As part of the transaction, the Company purchased $535 million senior investment security that is classified as held to maturity and carries an 80% lower capital requirement than the bridge loans.

- As of September 30, 2024, approximately 94% of loans reprice within three months, which reduces the risk of market rate increases.

- Net interest margin was 2.99% and remain unchanged compared to the three months ended September 30, 2023.

- Efficiency ratio was 41.00% compared to 27.97% for the three months ended September 30, 2023.

- As of September 30, 2024, the Company had $5.1 billion in unused borrowing capacity with the Federal Home Loan Bank and the Federal Reserve Discount window, based on available collateral. The Company's line of credit with the Federal Reserve Bank of Chicago, alone, could fund 120% of uninsured deposits.

- The Company's most liquid assets are in unrestricted cash, short-term investments, including interest-earning demand deposits, mortgage loans in process of securitization, loans held for sale, and warehouse repurchase agreements included in loans receivable. Taken together, with unused borrowing capacity, these totaled $11.1 billion, or 59%, of the $18.7 billion in total assets as of September 30, 2024.

- The volume of warehouse loans funded during the three months ended September 30, 2024 amounted to $13.1 billion, an increase of $2.4 billion, or 22%, compared to the three months ended September 30, 2023. This compared to the 21% industry increase in single-family residential loan volumes for the three months ended September 30, 2024 for the same period in 2023, according to an estimate of industry volume by the Mortgage Bankers Association.

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, 2023. There have been no 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, 2023.

Financial Condition

As of September 30, 2024, we had approximately $18.7 billion in total assets, $12.9 billion in deposits and $1.9 billion in total shareholders' equity. Total assets as of September 30, 2024 included approximately $10.3 billion of loans receivable, net of allowance for credit losses on loans ("ACL-Loans") and $3.8 billion of loans held for sale. There were also $1.8 billion in securities classified as held to maturity, most of which were acquired through loan securitizations. Assets also included $953.1 million in securities available for sale, the majority of which were acquired from a warehouse customer through loan securitizations, and others are match funded or required to collateralize our credit-linked notes. Additionally, we had $601.9 million of cash and cash equivalents, $431.0 million of mortgage loans in 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") mortgage-backed securities pending settlements that typically occur within 30 days. Other assets at September 30, 2024 totaled $329.4 million, which primarily represents low-income housing tax credits. Servicing rights at September 30, 2024 totaled $177.3 million based on the fair value of the loan servicing, which are primarily Ginnie Mae multi-family servicing rights with 10-year call protection.

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

Total Assets. Total assets of $18.7 billion at September 30, 2024 increased $1.7 billion, or 10%, compared to $17.0 billion at December 31, 2023. The increase was due primarily to growth in loans held for sale and in the warehouse and multi-family loan portfolios. There was also an increase in securities held to maturity compared to December 31, 2023, primarily due to the purchase of a security representing healthcare loans sold into a securitization in the third quarter of 2024 that was offset by a decline in loans in the healthcare portfolio that were sold into the securitization.

Cash and Cash Equivalents. Cash and cash equivalents of $601.9 million at September 30, 2024 increased $17.5 million, or 3%, compared to $584.4 million at December 31, 2023. Included in cash equivalents was $45.7 million in restricted cash associated with the March 2023 issuance of senior credit linked notes described in *Note 1: Basis of Presentation* and the Company's 2023 Annual Report on Form 10–K *.*

Mortgage Loans in Process of Securitization. Mortgage loans in process of securitization of $431.0 million at September 30, 2024 increased $320.4 million, or 290%, compared to $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 Ginnie Mae, Fannie Mae, and Freddie Mac mortgage-backed securities with a firm investor commitment to purchase the securities. The 290% increase was primarily due to a higher origination volume of loans pending settlement date.

Securities Available for Sale. Securities available for sale of $953.1 million at September 30, 2024 decreased $160.6 million, or 14%, compared to December 31, 2023. The decrease in securities available for sale was primarily due to $662.2 in calls, maturities, repayments, sales and other adjustments, partially offset by purchases of $501.6 million during the period.

Included in securities available for sale were $683.0 million of investments for which a fair value option was elected. Fair value option securities represent securities which the Company has elected to carry at fair value and are separately identified on the unaudited condensed consolidated balance sheets with changes in the fair value recognized in earnings as they occur.

As of September 30, 2024, Accumulated Other Comprehensive Income ("AOCI") of $0.1 million, related to securities available for sale, increased $2.6 million, or 104%, compared to accumulated losses of $2.5 million at December 31, 2023.

Securities Held to Maturity. Securities held to maturity of $1.8 billion at September 30, 2024 increased $550.8 million, or 46%, compared to $1.2 billion at December 31, 2023. The increase was due to purchases of $689.8 million partially offset by remittances of loan payments underlying the securities during the period.

Loans Held for Sale. Loans held for sale of $3.8 billion at September 30, 2024 increased $663.5 million, or 21%, compared to $3.1 billion at December 31, 2023. The increase in loans held for sale was due primarily to an increase in warehouse participations, as we experienced higher volume. Loans held for sale are comprised primarily of single-family residential real estate loan participations that meet Fannie Mae, Freddie Mac, or Ginnie Mae pool eligibility. It also includes a growing contribution of multi-family loans that are expected to be sold or securitized within the next year.

Loans Receivable, Net. Loans receivable, net of ACL-Loans, of $10.3 billion at September 30, 2024, which are comprised of loans held for investment, increased $134.1 million, or 1%, compared to $10.1 billion at December 31, 2023. The increase in net loans was comprised primarily of:

- an increase of $461.0 million, or 61%, in mortgage warehouse repurchase agreements, which totaled $1.2 billion at September 30, 2024, reflecting higher loan volume from increased sales efforts and market exits or reductions of competitors.

- an increase of $450.0 million, or 11%, in multi-family financing loans, which totaled $4.5 billion at September 30, 2024, reflecting higher origination volume for construction and other loans generated through 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.

- Partially offset by a decrease of $623.0 million, or 26%, in healthcare financing loans, which totaled $1.7 billion at September 30, 2024, primarily due to the sale of healthcare loans into a securitization.

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

Allowance for Credit Losses on Loans. The ACL-Loans of $84.5 million at September 30, 2024 increased $12.8 million, or 18%, compared to December 31, 2023, reflecting an $8.0 million increase in specific reserves, primarily related to two customers, and loan growth in both the warehouse and multi-family loan portfolios. Additional details provided in the ACL-Loans portion of the Comparison of Financial Condition at September 30, 2024 and December 31, 2023 and in *Note 4: Loans and Allowance for Credit Losses on Loans.*

Also influencing the overall level of the ACL-Loans is our differentiated strategy to primarily hold loans with shorter durations while maintaining agency underwriting standards that enable us to sell or refinance the majority of our loans under agency and government programs.

Goodwill. Goodwill of $8.0 million at September 30, 2024 decreased $7.8 million, or 49%, compared to $15.8 million at December 31, 2023. The goodwill associated with FMBI was eliminated upon the sale of their branches to unaffiliated third parties on January 26, 2024.

Servicing Rights. Servicing rights of $177.3 million at September 30, 2024 increased $18.9 million, or 12%, compared to December 31, 2023. During the nine months ended September 30, 2024, originated servicing of $13.3 million and a positive fair market value adjustment of $12.3 million were partially offset by paydowns of $6.7 million. The $12.3 million positive fair market value adjustment reflected a positive fair market value adjustment of $12.6 million for multi-family mortgages and a negative fair market value adjustment of $0.3 million for single-family mortgages and SBA loans during the nine months ended September 30, 2024.

Servicing rights are recognized in connection with sales of loans when we retain servicing of the sold loans. The servicing rights are recorded and carried at fair value. The fair value increase recorded during the nine months ended September 30, 2024 was driven by higher interest rates that impacted fair market value adjustments. The value of servicing rights generally increases in rising interest rate environments and declines in falling interest rate environments due to expected prepayments and earnings rates on escrow deposits.

Other Assets and Receivables. Other assets and receivables of $329.4 million at September 30, 2024 increased $22.3 million, or 7%, compared to December 31, 2023. The increase in other assets and receivables was primarily due to receivables associated with low-income housing tax credit investments.

Deposits. Deposits of $12.9 billion at September 30, 2024 decreased $1.2 billion, or 8%, compared to $14.1 billion at December 31, 2023. The decrease was primarily due to a $1.0 billion decrease in certificates of deposit, a $150.2 million decrease in demand deposits and a decrease of $12.5 million in savings deposits. As of September 30, 2024, approximately 81% of the total deposits reprice within three months.

Core deposits increased by $2 billion, or 25%, to $10.1 billion at September 30, 2024 compared to December 31, 2023. Core deposits represented 78% of total deposits at September 30, 2024 compared to 58% of total deposits at December 31, 2023.

We have decreased our use of brokered deposits by $3.2 million, or 53%, to $2.8 billion at September 30, 2024 compared to $6.0 billion at December 31, 2023. Brokered deposits represented 22% of total deposits at September 30, 2024 compared to 42% of total deposits at December 31, 2023. The shift away from brokered deposits was primarily due to more cost-effective funding options that utilized our collateralized borrowing capacity. As of September 30, 2024, brokered certificates of deposit had a weighted average remaining duration of 56 days.

- Brokered certificates of deposit accounts of $2.8 billion at September 30, 2024 decreased by $1.7 billion, or 37%, compared to December 31, 2023.

- Brokered demand deposit accounts decreased by $1.5 billion, or 100%, compared to December 31, 2023.

Compared to December 31, 2023, interest-bearing deposits decreased $960.9 million, or 7%, to $12.6 billion at September 30, 2024, and noninterest-bearing deposits decreased $208.7 million, or 40%, to $311.4 million at September 30, 2024.

Uninsured deposits represented approximately 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 $1.5 billion as of September 30, 2024 compared to $1.6 billion as of December 30, 2023 and $1.8 billion as of September 30, 2023. The Company’s line of credit with the Federal Reserve Bank of Chicago could fund 120% of uninsured deposits.

Borrowings. Borrowings increased $2.6 billion, or 270%, to $3.6 billion at September 30, 2024, compared to $964.1 million at December 31, 2023. The increase was primarily due to $2.6 billion in additional FHLB advances. The higher level of collateralized borrowing was primarily due to it being a more cost effective funding option than utilizing brokered deposits. The Company primarily utilizes borrowing facilities from the FHLB, the Federal Reserve’s discount window, and AFX. See *Note 12: Borrowings* for further information.

The Company continues to have significant borrowing capacity based on available collateral. As of September 30, 2024, unused lines of credit totaled $5.1 billion, compared to $6.0 billion at December 31, 2023.

Total Shareholders’ Equity. Total shareholders’ equity of $1.9 billion at September 30, 2024, increased $238.0 million, or 14%, compared to $1.7 billion as of December 31, 2023. The $238.0 million increase resulted primarily from net income of $224.7 million and net proceeds of $97.7 million from a common stock offering, which was partially offset by redemption of 7% Series A Preferred Stock for $52.0 million and dividends paid on common and preferred shares of $36.3 million during the period.

Asset Quality

Although there has been an increase in adversely classified loans, asset values remain strong overall and loans are well-collateralized. Loans are underwritten to strict agency guidelines. We have continued to strengthen our various levels of credit and risk management.

Total nonperforming loans (nonaccrual and greater than 90 days late but still accruing) were $210.9 million, or 2.04%, of total loans at September 30, 2024, compared to $82.0 million, or 0.80%, of total loans at December 31, 2023 and $60.2 million, or 0.60%, at September 30, 2023. The increase in non-performing loans compared to both periods was driven by multi-family and healthcare customers with delinquent payments on variable rate loans that have required higher payments largely due to elevated interest rates. The increase was also attributable to the financial deterioration of a few sponsors. Credit quality is expected to improve with the recent reduction in interest rates. After six months of consecutive loan performance, the loans are placed back on accrual status.

As a percentage of nonperforming loans, the ACL-Loans was 40% at September 30, 2024 compared to 87% at December 31, 2023 and 111% at September 30, 2023. The decrease in percentage compared to both periods was due to an increase in nonperforming loans, all of which have been individually evaluated for impairment.

Total loans greater than 30 days past due were $257.5 million at September 30, 2024, $183.5 million at December 31, 2023, and $125.4 million at September 30, 2023. The increase in non-performing loans compared to both periods was primarily driven by multi-family customers with delinquent payments on variable rate loans that have required higher payments due to interest rates remaining at elevated levels.

Loans classified as Special Mention totaled $351.4 million at September 30, 2024, compared to $191.3 million at December 31, 2023. The increase was primarily due to the increase in interest rates for our borrowers and the related levels of net operating income on certain properties in the multi-family and healthcare financing loan portfolios.

Loans classified as Substandard totaled $287.8 million at September 30, 2024, compared to $128.6 million at December 31, 2023. The increase was primarily due to the increase in interest rates for our borrowers and the related levels of net operating income on certain properties in the multi-family financing loan portfolio. All substandard loans as of September 30, 2024 have been evaluated for impairment and these loans have specific reserves of $19.2 million.

During the three months ended September 30, 2024 there were $2.1 million of charge-offs and $7,000 of recoveries, compared to $21,000 of charge-offs and $31,000 recoveries for the three months ended September 30, 2023.

For the nine months ended September 30, 2024, there were $6.4 million of charge-offs and $23,000 of recoveries, compared to $9.6 million of charge-offs and $40,000 of recoveries for the nine months ended September 30, 2023.

The $84.5 million allowance for credit losses on loans as of September 30, 2024, compared to the net charge-offs of $6.7 million over the last twelve months ended September 30, 2024, could absorb 13 years of losses if recent loss levels continued into the future.

In addition to the elevated ACL-loans, the Company has been making efforts to minimize its credit risk through loan sale and securitization activities since 2019. In April 2023 and March 2024, the Company strategically entered into credit protection arrangements through a credit linked note and credit default swap, respectively, for $1.7 billion in loans to reduce our risk of losses with incremental coverage of approximately 14% on those covered loans. The balance of loans in those covered portfolios as of September 30, 2024 was $1.3 billion.

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

General. Net income of $61.3 million for the three months ended September 30, 2024 decreased by $20.2 million, or 25%, compared with $81.5 million for the three months ended September 30, 2023. The decrease reflected

- a $15.4 million, or 13%, increase in net interest income,
- a $6.0 million, or 56%, increase in gain on sale of loans,
- a $5.0 million, or 20%, decrease in provision for income taxes,
- an $18.9 million, or 109%, decrease in loan servicing fees, primarily due to negative fair market value adjustments to derivatives and servicing rights,
- an $18.4 million, or 43%, increase in noninterest expense, primarily driven by salaries and employee benefits that reflected higher commissions on higher production volume, and increases in deposit insurance expenses, and ongoing premium expense associated with the credit default swap,

- a $5.6 million decrease in other income, reflecting negative fair market value adjustments to derivatives, and
- a $2.9 million, or 72%, increase in the provision for credit losses primarily related to increased specific reserves.

Net Interest Income. Net interest income of $132.8 million for the three months ended September 30, 2024 increased $15.4 million, or 13%, compared with $117.4 million for the three months ended September 30, 2023. The 13% increase reflected an increase in average balances on loans and loans held for sale, which were partially offset by higher average balances on borrowings. The interest rate spread of 2.43% for the three months ended September 30, 2024 decreased 1 basis points compared to 2.44% for the three months ended September 30, 2023.

Our net interest margin of 2.99% for the three months ended September 30, 2024 remain unchanged compared to the three months ended September 30, 2023. The margin was negatively impacted by approximately 6 basis points in the third quarter of 2024 from the net reversal of $2.9 million in accrued interest income associated with the movement of loans into nonaccrual status.

Interest Income. Interest income of $338.9 million for the three months ended September 30, 2024 increased 14%, compared with $296.7 million for the three months ended September 30, 2023. This increase primarily reflecting an increase in average balances of loans and loans held for sale, as well as increased average yields and balances on securities available for sale.

Interest income of $290.3 million for the three months ended September 30, 2024 for loans and loans held for sale increased $23.7 million, or 9%, compared to $266.6 million for the three months ended September 30, 2023. The average balance of loans, including loans held for sale, during the three months ended September 30, 2024 increased $1.2 billion, or 9%, to $14.6 billion compared to $13.4 billion for the three months ended September 30, 2023. The average yield on loans increased 2 basis points, to 7.91% for the three months ended September 30, 2024, compared to 7.89% for the three months ended September 30, 2023. The increase in average balances of loans and loans held for sale was primarily due to increases in the loans held for sale, warehouse and multi-family loan portfolios.

Interest income of $14.9 million for the three months ended September 30, 2024 on securities available for sale increased $8.7 million, or 140%, compared to $6.2 million for the three months ended September 30, 2023. The average balance of securities available for sale of $1.0 billion increased $354.6 million, or 54%, compared to $656.6 million for the three months ended September 30, 2023. The average yield increased 210 basis points, to 5.84% for the three months ended September 30, 2024, compared to 3.74% for the three months ended September 30, 2023. The increase in average balances of securities available for sale was primarily associated with the acquisition of certain securities 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 $22.1 million for the three months ended September 30, 2024 for securities held to maturity increased $4.7 million, or 27%, compared to $17.4 million for the three months ended September 30, 2023. The average balance of securities held to maturity, during the three months ended September 30, 2024 increased $248.4 million, or 24%, to $1.3 billion compared to $1.0 billion for the three months ended September 30, 2023. The average yield on securities held to maturity increased 17 basis points, to 6.82% for the three months ended September 30, 2024, compared to 6.65% for the three months ended September 30, 2023. The increase in average balance of securities held to maturity was primarily related to securities held to maturity acquired as part of loan securitizations.

Interest income of $7.7 million for the three months ended September 30, 2024 on interest-earning deposits, and other interest or dividends increased $3.7 million, or 96%, compared to the three months ended September 30, 2023. The average balance of interest-earning deposits and other of $484.7 million increased $225.1 million, or 87%, compared to $259.6 million for the three months ended September 30, 2023. The average yield increased 31 basis points, to 6.30% for the three months ended September 30, 2024, compared to 5.99% for the three months ended September 30, 2023.

Interest Expense. Total interest expense of $206.1 million for the three months ended September 30, 2024 increased $26.9 million, or 15%, compared to $179.2 million for the three months ended September 30, 2023. The increase reflected higher average balances on borrowings and interest-bearing checking accounts, partially offset by lower average rates on borrowings and lower average balances on certificates of deposit. Also included in borrowings, our warehouse structured financing agreements provided for additional interest payments for a portion of earnings generated.

Interest expense of $40.4 million for the three months ended September 30, 2024 on borrowings increased $24.1 million, or 148%, compared to $16.3 million for the three months ended September 30, 2023. The increase reflected an increase of $1.8 billion, or 254%, in the average balance of borrowings, to $2.5 billion compared to the three months ended September 30, 2023, partially offset by a decrease of 271 basis points in the average rate of borrowings, to 6.39% compared to 9.10% for the three months ended September 30, 2023. The higher level of collateralized borrowing was primarily due to it being a more cost-effective funding option than utilizing brokered deposits.

Interest expense on deposits increased $2.8 million, or 2%, to $165.7 million for the three months ended September 30, 2024 compared to $162.9 million for the three months ended September 30, 2023. The increase was primarily due to higher average balances on interest-bearing checking accounts partially offset by lower average balances on certificates of deposit.

Interest expense of $62.6 million for the three months ended September 30, 2024 on interest-bearing checking accounts increased $4.0 million, or 7%, compared to $58.6 million for the three months ended September 30, 2023. The average balance of interest-bearing checking accounts of $5.3 billion for the three months ended September 30, 2024 increased $415.2 million, or 9%, compared to $4.9 billion for the three months ended September 30, 2023. The average yield of interest-bearing checking accounts was 4.70% for the three months ended September 30, 2024, which was a 6 basis point decrease compared to 4.76% for three months ended September 30, 2023.

Interest expense of $69.2 million for the three months ended September 30, 2024 on certificates of deposit decreased $1.5 million, or 2%, compared to $70.7 million for the three months ended September 30, 2023. The average balance of certificates of deposit of $5.0 billion for the three months ended September 30, 2024 decreased $223.4 million, or 4%, compared to the three months ended September 30, 2023. The average rate on certificates of deposit was 5.47% for the three months ended September 30, 2024, which was a 13 basis point increase compared to 5.34% for three months ended September 30, 2023.

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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,					
	2024			2023		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning deposits, and other interest or dividends	$ 484,712	$ 7,671	6.30 %	$ 259,630	$ 3,923	5.99 %
Securities available for sale	1,011,146	14,855	5.84 %	656,561	6,182	3.74 %
Securities held to maturity	1,288,466	22,081	6.82 %	1,040,070	17,427	6.65 %
Mortgage loans in process of securitization	308,362	4,062	5.24 %	208,767	2,583	4.91 %
Loans and loans held for sale	14,603,750	290,259	7.91 %	13,399,854	266,561	7.89 %
Total interest-earning assets	17,696,436	338,928	7.62 %	15,564,882	296,676	7.56 %
Allowance for credit losses on loans	(81,178)			(63,449)		
Noninterest-earning assets	696,135			529,582		
Total assets	$ 18,311,393			$ 16,031,015		
Liabilities/Equity:						
Interest-bearing checking	$ 5,297,908	$ 62,603	4.70 %	$ 4,882,727	$ 58,642	4.76 %
Savings deposits	145,305	17	0.05 %	241,861	340	0.56 %
Money market deposits	2,816,906	33,858	4.78 %	2,798,325	33,235	4.71 %
Certificates of deposit	5,032,159	69,197	5.47 %	5,255,573	70,689	5.34 %
Total interest-bearing deposits	13,292,278	165,675	4.96 %	13,178,486	162,906	4.90 %
Borrowings	2,518,405	40,432	6.39 %	711,948	16,334	9.10 %
Total interest-bearing liabilities	15,810,683	206,107	5.19 %	13,890,434	179,240	5.12 %
Noninterest-bearing deposits	327,930			333,155		
Noninterest-bearing liabilities	231,754			199,647		
Total liabilities	16,370,367			14,423,236		
Equity	1,941,026			1,607,779		
Total liabilities and equity	$ 18,311,393			$ 16,031,015		
Net interest income		$ 132,821			$ 117,436	
Interest rate spread			2.43 %			2.44 %
Net interest-earning assets	$ 1,885,753			$ 1,674,448		
Net interest margin			2.99 %			2.99 %
Average interest-earning assets to average interest-bearing liabilities			111.93 %			112.05 %

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). 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, 2024 compared to September 30, 2023		
	Increase (Decrease) Due to		
	Volume	Rate	Total
		(In thousands)	
Interest income:			
Interest-earning deposits, and other interest or dividends	$ 3,401	$ 347	$ 3,748
Securities available for sale	3,339	5,334	8,673
Securities held to maturity	4,162	492	4,654
Mortgage loans in process of securitization	1,232	247	1,479
Loans and loans held for sale	23,949	(251)	23,698
Total interest income	36,083	6,169	42,252
Interest expense:			
Deposits			
Interest-bearing checking	4,986	(1,025)	3,961
Savings deposits	(136)	(187)	(323)
Money market deposits	221	402	623
Certificates of deposit	(3,005)	1,513	(1,492)
Total Deposits	2,066	703	2,769
Borrowings	41,445	(17,347)	24,098
Total interest expense	43,511	(16,644)	26,867
Net interest income	$ (7,428)	$ 22,813	$ 15,385

Provision for Credit Losses. We recorded a total provision for credit losses of $6.9 million for the three months ended September 30, 2024, an increase of $2.9 million, or 72%, compared to the three months ended September 30, 2023. The 72% increase reflected higher specific reserves on a relatively small number of borrowers.

The provision for the three months ended September 30, 2024 reflected $8.0 million for specific reserves, primarily related to two customers, and $1.9 million related to charge-offs in excess of reserves, partially offset by a reduction of $3.8 million due to lower loan balances associated with the corresponding healthcare loan securitization.

The $6.9 million provision for credit losses consisted of $5.6 million for the ACL-Loans, $2.1 million for the ACL-OBCE's, net of $0.7 million for the release of non-contingent reserves related to a loan securitization. The ACL-Loans was $84.5 million, or 0.82%, of total loans, at September 30, 2024, compared to $71.8 million, or 0.70%, of total loans, at December 31, 2023, and $66.9 million, or 0.67%, at September 30, 2023.

Noninterest Income. Noninterest income of $16.7 million for the three months ended September 30, 2024 decreased $19.3 million, or 54%, compared to $36.1 million for the three months ended September 30, 2023. The decrease was primarily due to a $18.9 million, or 109%, decrease in net loan servicing fees and a $5.6 million, or 152%, decrease in other income, partially offset by a $6.0 million, or 56%, increase in gain on sale of loans.

Loan servicing fees included a $6.7 million negative fair market value adjustment to servicing rights for the three months ended September 30, 2024, compared to a $11.6 million positive adjustment to fair value of servicing rights for the three months ended September 30, 2023. The value of servicing rights generally increases in rising interest rate environments and declines in falling interest rate environments due to expected prepayments and earning rates on escrow deposits.

Other income included a $7.7 million negative fair market value adjustment to interest rate floor derivatives on loans that didn't occur in the prior comparative period.

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

	For the Three Months Ended September 30,	
	2024	2023
	(In thousands)	
Loan Type		
Multi-family and healthcare	$ 15,302	$ 8,616
Single-family	690	951
SBA	739	1,191
Total	$ 16,731	$ 10,758

Noninterest Expense. Noninterest expense of $61.3 million for the three months ended September 30, 2024 increased $18.4 million, or 43%, compared to $42.9 million for the three months ended September 30, 2023. The increase was primarily due to increases in salaries and employee benefits that reflected higher commissions on higher production volume, as well as a $5.4 million, or 152%, increase in deposit insurance expenses. The higher noninterest expense also reflected a $3.4 million increase in other expenses primarily associated with ongoing premium expense for the credit default swap that was executed in March 2024.

The efficiency ratio was at 41.00% for the three months ended September 30, 2024, compared with 27.97% for the three months ended September 30, 2023.

Income Taxes. Income tax expense of $20.1 million for the three months ended September 30, 2024 decreased $5.0 million, or 20%, compared to the three months ended September 30, 2023. The decrease was primarily due to a 24% decrease in pretax income period to period. The effective tax rate was 24.7% for the three months ended September 30, 2024 and 23.5% for the three months ended September 30, 2023.

Comparison of Operating Results for the Nine Months Ended September 30, 2024 and 2023

General. Net income of $224.7 million for the nine months ended September 30, 2024 increased $23.0 million, or 11%, compared to the nine months ended September 30, 2023. The increase was primarily due to a $64.3 million increase in net interest income, an $11.9 million decrease in the provision for credit losses, and an $8.8 million increase in noninterest income, partially offset by a $38.6 million increase in noninterest expense and a $23.4 million increase in the provision for income taxes.

Net Interest Income. Net interest income of $388.0 million for the nine months ended September 30, 2024 increased $64.3 million, or 20%, compared to $323.7 million for the nine months ended September 30, 2023. The increase reflected both higher average balances and average yields on loans and loans held for sale, securities available for sale, and securities held to maturity, partially offset by an increase in interest expense from both higher average balances and rates on certificates of deposit accounts, interest-bearing checking, and higher average balances on borrowings. The interest rate spread of 2.48% for the nine months ended September 30, 2024 decreased 4 basis points compared to 2.52% for the nine months ended September 30, 2023.

Our net interest margin decreased 3 basis points, to 3.04% for the nine months ended September 30, 2024 from 3.07% for the nine months ended September 30, 2023. The margin was negatively impacted by approximately 4 basis points from the net reversal of $5.7 million in accrued interest income associated with the movement of loans into nonaccrual status.

Interest Income. Interest income of $981.4 million for the nine months ended September 30, 2024 increased $215.3 million, or 28%, compared to the nine months ended September 30, 2023. This increase was primarily attributable to an increase in average balances and higher yields of loans and loans held for sale, securities available for sale, securities held to maturity, and interest earning deposits and other interest or dividends.

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Interest income of $846.7 million for the nine months ended September 30, 2024 on loans and loans held for sale increased $161.9 million, or 24%, compared to the nine months ended September 30, 2023. The average balance of loans, including loans held for sale, during the nine months ended September 30, 2024 increased $2.2 billion, or 18%, to $14.2 billion compared to $12.0 billion for the nine months ended September 30, 2023, and the average yield on loans increased 36 basis points, to 7.99% for the nine months ended September 30, 2024, compared to 7.63% for the nine months ended September 30, 2023.

Interest income of $44.0 million for the nine months ended September 30, 2024 on securities available for sale increased $30.0 million, or 214%, compared to the nine months ended September 30, 2023. The average balance of securities available for sale increased $452.6 million, or 76%, to $1.0 billion for the nine months ended September 30, 2024 compared to $592.5 million for the nine months ended September 30, 2023, and the average yield increased 247 basis points, to 5.63% for the nine months ended September 30, 2024, compared to 3.16% for the nine months ended September 30, 2023.

Interest income of $62.4 million for the nine months ended September 30, 2024 on securities held to maturity increased $11.9 million, or 24%, compared to $50.5 million for the nine months ended September 30, 2023. The average balance of securities held to maturity, during the nine months ended September 30, 2024 increased $132.9 million, or 12%, to $1.2 billion compared to the nine months ended September 30, 2023. The average yield on securities held to maturity increased 62 basis points, to 6.86% for the nine months ended September 30, 2024 ended, compared to 6.24% for the nine months ended September 30, 2023.

Interest income of $19.4 million for the nine months ended September 30, 2024 on interest-earning deposits and other interest or dividends increased $10.0 million, or 106%, compared to the nine months ended September 30, 2023. The average balance of interest-earning deposits and other increased $191.8 million, or 83%, to $423.3 million for the nine months ended September 30, 2024, from $231.5 million for the nine months ended September 30, 2023, and the average yield increased 68 basis points, to 6.13% for the nine months ended September 30, 2024, compared to 5.45% for the nine months ended September 30, 2023.

Interest Expense. Total interest expense of $593.4 million for the nine months ended September 30, 2024 increased $151.1 million, or 34%, compared to $442.3 million for the nine months ended September 30, 2023. The higher interest expense reflected increases in both deposits and borrowings, with a shift towards higher collateralized borrowings that has become a more cost-effective option that utilizing brokered deposits.

Interest expense on deposits increased $111.2 million, or 27%, to $516.3 million for the nine months ended September 30, 2024, compared to $405.1 million for the nine months ended September 30, 2023. The increase was primarily due to higher average balances and higher rates for certificate of deposit accounts and interest-bearing checking accounts, as well as higher rates on money market accounts.

Interest expense of $234.0 million for the nine months ended September 30, 2024 for certificates of deposits increased $69.7 million, or 42%, compared to $164.3 million for the nine months ended September 30, 2023. The average balance of certificates of deposit accounts was $5.8 billion for the nine months ended September 30, 2024, an increase of $1.3 billion, or 29%, compared to the nine months ended September 30, 2023. The average rate on certificates of deposit accounts was 5.43% for the nine months ended September 30, 2024, which was a 49 basis point increase compared to 4.94% for the nine months ended September 30, 2023.

Interest expense of $181.4 million for the nine months ended September 30, 2024 for interest-bearing checking accounts increased $33.8 million, or 23%, compared to $147.6 million for the nine months ended September 30, 2023. The average balance of interest-bearing checking accounts of $5.1 billion for the nine months ended September 30, 2024 increased $684.6 million, or 15%, compared to $4.4 billion for the nine months ended September 30, 2023. The average rate on interest-bearing checking accounts was 4.75% for the nine months ended September 30, 2024, which was a 28 basis point increase compared to 4.47% for the nine months ended September 30, 2023.

Interest expense of $100.7 million for the nine months ended September 30, 2024 for money market accounts increased $8.3 million, or 9%, compared to $92.4 million for the nine months ended September 30, 2023. The average balance of money market accounts of $2.8 billion for the nine months ended September 30, 2024 increased $9.0 million compared to the nine months ended September 30, 2023. The average rate on money market accounts was 4.79% for the nine months ended September 30, 2024, which was a 38 basis point increase compared to 4.41% for the nine months ended September 30, 2023.

Interest expense of $77.0 million for the nine months ended September 30, 2024 for borrowings increased $39.9 million, or 107%, compared to $37.1 million for the nine months ended September 30, 2023. The increase was primarily due to a $830.0 million, or 139%, increase in average balances, partially offset by a decrease of 112 basis points in the average rate of borrowings, to 7.21% compared to 8.33% for the nine months ended September 30, 2023. Also included in borrowings, is our warehouse structured financing agreements that provide for additional interest payments for a portion of the earnings generated. As a result, the cost of borrowings increased from a base rate of 6.89% and 8.12%, to an effective rate of 7.21% and 8.33% for the nine months ended September 30, 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.

	Nine Months Ended September 30,					
	2024			2023		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning deposits, and other interest or dividends	$ 423,327	$ 19,441	6.13 %	$ 231,549	$ 9,434	5.45 %
Securities available for sale	1,045,092	44,027	5.63 %	592,460	14,012	3.16 %
Securities held to maturity	1,215,357	62,402	6.86 %	1,082,502	50,492	6.24 %
Mortgage loans in process of securitization	227,283	8,826	5.19 %	216,245	7,358	4.55 %
Loans and loans held for sale	14,150,287	846,678	7.99 %	11,998,301	684,743	7.63 %
Total interest-earning assets	17,061,346	981,374	7.68 %	14,121,057	766,039	7.25 %
Allowance for credit losses on loans	(76,410)			(54,417)		
Noninterest-earning assets	657,068			474,883		
Total assets	$ 17,642,004			$ 14,541,523		
Liabilities/Equity:						
Interest-bearing checking	$ 5,101,859	$ 181,419	4.75 %	$ 4,417,224	$ 147,585	4.47 %
Savings deposits	164,074	255	0.21 %	238,404	905	0.51 %
Money market deposits	2,807,575	100,708	4.79 %	2,798,622	92,364	4.41 %
Certificates of deposit	5,751,613	233,966	5.43 %	4,443,014	164,295	4.94 %
Total interest-bearing deposits	13,825,121	516,348	4.99 %	11,897,264	405,149	4.55 %
Borrowings	1,426,146	77,030	7.21 %	596,174	37,144	8.33 %
Total interest-bearing liabilities	15,251,267	593,378	5.20 %	12,493,438	442,293	4.73 %
Noninterest-bearing deposits	330,440			328,143		
Noninterest-bearing liabilities	222,115			169,746		
Total liabilities	15,803,822			12,991,327		
Equity	1,838,182			1,550,196		
Total liabilities and equity	$ 17,642,004			$ 14,541,523		
Net interest income		$ 387,996			$ 323,746	
Interest rate spread			2.48 %			2.52 %
Net interest-earning assets	$ 1,810,079			$ 1,627,619		
Net interest margin			3.04 %			3.07 %
Average interest-earning assets to average interest-bearing liabilities			111.87 %			113.03 %

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). 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:

	Nine Months Ended September 30, 2024 compared to September 30, 2023		
	Increase (Decrease) Due to		
	Volume	Rate	Total
	(In thousands)		
Interest income:			
Interest-earning deposits, and other interest or dividends	$ 7,814	$ 2,193	$ 10,007
Securities available for sale	10,705	19,310	30,015
Securities held to maturity	6,197	5,713	11,910
Mortgage loans in process of securitization	376	1,092	1,468
Loans and loans held for sale	122,814	39,121	161,935
Total interest income	147,906	67,429	215,335
Interest expense:			
Deposits			
Interest-bearing checking	22,875	10,959	33,834
Savings deposits	(282)	(368)	(650)
Money market deposits	295	8,049	8,344
Certificates of deposit	48,390	21,281	69,671
Total Deposits	71,278	39,921	111,199
Borrowings	51,711	(11,825)	39,886
Total interest expense	122,989	28,096	151,085
Net interest income	$ 24,917	$ 39,333	$ 64,250

Provision for Credit Losses. We recorded a provision for credit losses of $21.6 million for the nine months ended September 30, 2024, a decrease of $11.9 million, or 36%, compared to $33.5 million for the nine months ended September 30, 2023. The decrease was primarily due to lower loan charge-offs and fewer relative changes to qualitative factors.

Noninterest Income. Noninterest income of $89.0 million for the nine months ended September 30, 2024 increased $8.8 million, or 11%, compared to $80.2 million for the nine months ended September 30, 2023. The increase was primarily due to a $8.4 million, or 29%, increase in gain on sale of loans and a $2.9 million, or 39%, increase in syndication and asset management fees compared to the nine months ended September 30, 2023.

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

	For the Nine Months Ended September 30,	
	2024	2023
	(In thousands)	
Loan Type		
Multi-family and healthcare	$ 32,808	$ 23,897
Single-family	1,494	1,430
SBA	2,953	3,514
Total	$ 37,255	$ 28,841

The $2.9 million increase in syndication and asset management fees increased as we continue to experience growth in this line of business.

Noninterest income also included a $0.4 million increase in loan servicing fees due to higher positive adjustments to fair value of servicing rights. Included in loan servicing fees was a $12.3 million positive adjustment to the fair value of servicing rights for the nine months ended September 30, 2024, compared to a positive adjustment of $12.2 million for the nine months ended September 30, 2023.

Noninterest Expense. Noninterest expense of $160.6 million for the nine months ended September 30, 2024 increased $38.6 million, or 32%, compared to $122.0 million for the nine months ended September 30, 2023. The increase was primarily due to an $18.3 million, or 24%, increase in salaries and employee benefits reflecting higher commissions associated with loan growth, as well as a $10.1 million, or 106%, increase in deposit insurance. Other expenses increased $6.5 million, or 44%, primarily due to ongoing premium expense on the credit default swap that was executed in March 2024.

The efficiency ratio was at 33.67% for the nine months ended September 30, 2024, compared with 30.21% for the nine months ended September 30, 2023.

Income Taxes. Provision for income taxes of $70.0 million for the nine months ended September 30, 2024 increased $23.4 million, or 50%, compared to the nine months ended September 30, 2023. The increase reflected a 19% higher pre-tax income during the nine months ended September 30, 2024, as well as a $13.0 million tax benefit recorded in the second quarter of 2023 related to tax refunds and changes to state tax apportionment calculations. The effective tax rate was 23.8% for the nine months ended September 30, 2024 and 18.8% for the nine months ended September 30, 2023.

Our Segments

We operate in three primary segments: 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 through Merchants Capital. Merchants Capital is also a fully integrated syndicator of low-income housing tax credit and debt funds. As one of the top ranked agency affordable lenders in the nation, our licenses with Fannie Mae, Freddie Mac, and FHA, coupled with our bank financing products, provide sponsors with custom beginning-to-end financing solutions that adapt to an ever-changing market. We are also one of the largest Ginnie Mae servicers in the country based on aggregate loan principal value. As of September 30, 2024 the Company's total servicing portfolio had an unpaid principal balance of $28.2 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 $17.0 billion, an unpaid principal balance of loans sub-serviced for others of $2.6 billion, and other servicing balances of $0.8 billion at September 30, 2024. These loans are not included in the accompanying balance sheets. The Company also manages $7.8 billion of loans for customers that have loans on the balance sheet at September 30, 2024. The servicing portfolio primarily consists of 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 over $33.2 billion in 2022, $33.0 billion in 2023, and $32.0 billion for the nine months ended September 30, 2024. Mortgage Warehousing also provides commercial loans and collects deposits related to the mortgage escrow accounts of its customers.

The Banking segment includes retail banking, commercial lending, agricultural lending, retail and correspondent residential mortgage banking, and SBA lending. Banking operates primarily in Indiana, 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.

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Our segments diversify the net income of Merchants Bank and provide synergies across the segments. Strategic opportunities come from MCC and MCS, where loans are funded by the Banking segment and the Banking segment provides Ginnie Mae custodial services to 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 or purchases of securitized loans originated by MCC are pledged to the FHLB to provide advance capacity during periods of high residential loan volume for Mortgage Warehousing. Mortgage Warehousing provides leads to 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 or refinance the underlying collateral to secure repayment. These and other synergies form a part of our strategic plan.

The Other segment presented below, in *Note 17: 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.

For the three months ended September 30, 2024 and 2023, we had total net income of $61.3 million and $81.5 million, respectively. For the nine months ended September 30, 2024 and 2023, we had total net income of $224.7 million and $201.8 million, respectively. Net income and assets for our segments for the respective periods was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Assets at September 30,
	2024	2023	2024	2023	2024
			(In thousands)		
Multi-family Mortgage Banking	$ 8,068	$ 14,685	$ 33,714	$ 27,893	$ 453,281
Mortgage Warehousing	15,940	19,926	58,400	47,163	5,842,489
Banking	44,983	52,445	153,786	144,402	12,035,581
Other	(7,718)	(5,552)	(21,180)	(17,697)	321,625
Total	$ 61,273	$ 81,504	$ 224,720	$ 201,761	$ 18,652,976

Multi-family Mortgage Banking.

Comparison of results for the three months ended September 30, 2024 and 2023:

The Multi-family Mortgage Banking segment reported net income of $8.1 million for the three months ended September 30, 2024, a decrease of $6.6 million, or 45%, compared to $14.7 million for the three months ended September 30, 2023. The decrease in net income was primarily due to a decrease in loan servicing fees related to negative fair market value adjustments, as well as increased salaries and employee benefits reflecting higher commissions on higher production volume, partially offset by increased gain on sale of loans.

Results included a $5.1 million negative fair market value adjustment to servicing rights for the three months ended September 30, 2024 compared to a $10.4 million positive fair market value adjustment for the three months ended September 30, 2023. Excluding fair market value adjustments to servicing rights, loan servicing fees increased compared to the three months ended September 30, 2023.

The volume of loans originated and acquired for sale in the secondary market increased by $341.5 million, or 81%, to $763.7 million, for the three months ended September 30, 2024, compared to the three months ended September 30, 2023.

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Comparison of results for the nine months ended September 30, 2024 and 2023:

The Multi-family Mortgage Banking segment reported net income of $33.7 million for the nine months ended September 30, 2024, an increase of $5.8 million, or 21%, from the $27.9 million of net income reported for the nine months ended September 30, 2023. The increase in net income was primarily due to a $13.3 million increase in gain on sale of loans from higher production volume, a $6.0 million increase in loan servicing fees, as well as a $2.8 million increase in syndication and asset management fees as we continue to see growth in our Low-Income Housing Tax Credits ("LIHTC") syndication of business. These increases to net income were partially offset by a $12.2 million increase in noninterest expenses, primarily due to increased salaries and employee benefits related to higher commissions on higher production volume, and increased income tax expense primarily associated with a tax benefit recorded in the second quarter of 2023 related to tax refunds and changes in state tax apportionment calculations.

Loan servicing fees for the nine months ended September 30, 2024 included a positive fair market value adjustment of $12.6 million on servicing rights, compared to a positive fair market value adjustment of $10.4 million for the nine months ended September 30, 2023.

The volume of loans originated and acquired for sale in the secondary market increased by $150.7 million, or 13%, to $1.4 billion, for the nine months ended September 30, 2024, compared to $1.2 billion. for the nine months ended September 30, 2023.

Mortgage Warehousing.

Comparison of results for the three months ended September 30, 2024 and 2023:

The Mortgage Warehousing segment reported net income of $15.9 million for the three months ended September 30, 2024, a decrease of $4.0 million, or 20%, compared to $19.9 million for the three months ended September 30, 2023. The decrease in net income reflected negative fair value adjustments on derivatives that were partially offset by higher net interest income associated with increased volumes.

There was a 22% increase in warehouse loan volume of $13.1 billion compared to $10.8 billion for the three months ended September 30, 2023, which compared to an industry volume increase of 21% according to the Mortgage Bankers Association.

Comparison of results for the nine months ended September 30, 2024 and 2023:

The Mortgage Warehousing segment reported net income for the nine months ended September 30, 2024 of $58.4 million, an increase of $11.2 million, or 24%, compared to $47.2 million for the nine months ended September 30, 2023. The increase in net income reflected higher net interest income as volumes increased, which was partially offset by a negative fair value adjustment on derivatives.

There was a 30% increase in warehouse loan volume of $32.0 billion compared to $24.6 billion for the nine months ended September 30, 2023, which compared to an industry volume increase of 17% according to the Mortgage Bankers Association. The increase compared to the industry reflected higher loan volume from increased sales efforts and market exits or reductions of competitors.

Banking.

Comparison of results for the three months ended September 30, 2024 and 2023:

The Banking segment reported net income of $45.0 million for the three months ended September 30, 2024, a decrease of $7.5 million, or 14%, compared to the three months ended September 30, 2023. The decrease was primarily due to a lower gain on sale of loans and loan servicing fees, as well as an increase in noninterest expense, partially offset by an increase in net interest income.

Noninterest income for the three months ended September 30, 2024 included a negative fair market value adjustment of $1.6 million on servicing rights, compared to a positive fair market value adjustment of $1.2 million for the three months ended September 30, 2023.

Comparison of results for the nine months ended September 30, 2024 and 2023:

The Banking segment reported net income of $153.8 million for the nine months ended September 30, 2024, an increase of $9.4 million, or 6%, compared to $144.4 million for the nine months ended September 30, 2023. The increase in net income was primarily due to higher net interest income and lower provision for loan losses, which was partially offset by a higher provision for income taxes and higher noninterest expense that reflected increased deposit insurance premiums and ongoing premium expenses on the credit default swap executed in March 2024. Lower gain on sale of loans also partially offset the increases to net income.

Noninterest income for the nine months ended September 30, 2024 included a negative fair market value adjustment of $0.3 million on servicing rights, compared to a positive fair market value adjustment of $1.8 million for the nine months ended September 30, 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, 2024, based on collateral, we had $5.1 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 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-earning demand deposits, mortgage loans in process of securitization, loans held for sale, and warehouse lines of credit included in loans receivable. Taken together with its unused borrowing capacity of $5.1 billion described above, these totaled $11.1 billion, or 59%, of its $18.7 billion total assets at September 30, 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 represent approximately 20% of total deposits. Our line of credit with Federal Reserve Bank of Chicago, alone, could fund 120% of uninsured 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 $1.5 billion and $1.6 billion as of September 30, 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. As of September 30, 2024, Accumulated Other Comprehensive Income ("AOCI") of $0.1 million, related to securities available for sale, increased $2.6 million, or 104%, compared to accumulated losses of $2.5 million as of December 31, 2023.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash used in operating activities was ($825.3) million and $(1.1) billion for the nine months ended September 30, 2024 and 2023, respectively. Net cash used in investing activities, which consists primarily of net change in loans receivable and purchases, sales and maturities of investment securities and loans, was $(830.8) million and $(2.3) billion for the nine months ended September 30, 2024 and 2023, respectively. Net cash provided by financing activities, which is comprised primarily of net change in borrowings and deposits was $1.7 billion and $3.6 billion for the nine months ended September 30, 2024 and 2023, respectively.

Certificates of deposit that are scheduled to mature in less than one year from September 30, 2024 totaled $4.1 billion, or 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 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 September 30, 2024, we had $4.1 billion in outstanding commitments to extend credit that are subject to credit risk and $3.5 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 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, 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 $1.9 billion as of September 30, 2024, compared to $1.7 billion as of December 31, 2023. The $238.0 million or 14%, increase resulted primarily from net income of $224.7 million and net proceeds of $97.7 million from a common stock offering, which was partially offset by redemption of 7% Series A Preferred Stock for $52.0 million and dividends paid on common and preferred shares of $36.3 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.

The Company redeemed all outstanding shares of the Series A Preferred Stock on April 1, 2024 for $52 million at a price equal to the liquidation preference of $25.00 per share, using cash on hand.

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.

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 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 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 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 October 1, 2024.

On October 1, 2024, the dividends on the Series B Preferred stock started to accrue at a floating rate of 3-month SOFR plus 4.831% and will reset quarterly. The rate will be 9.42% for the fourth quarter 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 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.

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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. If the Series D Preferred Stock remains outstanding on October 1, 2027, its dividend rate would reset to the 5-year Treasury rate, plus 4.34% and would remain at that level for an additional 5 years.

Common Shares/Dividends. As of September 30, 2024, the Company had 45,764,023 common shares issued and outstanding. The Board expects to declare a quarterly dividend of $0.09 per share in each quarter of 2024.

On May 13, 2024, the Company issued 2.4 million shares of the Company's common stock, without par value, at a public offering price of $43.00 per share in an underwritten public offering. The aggregate gross offering proceeds for the shares issued by the Company was $103.2 million, and after deducting underwriting discounts, commissions, and offering expenses of $5.5 million paid to third parties, the Company received total net proceeds of $97.7 million.

Capital Adequacy.

The following tables present the Company's capital ratios at September 30, 2024 and 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, 2024						
Total capital[(1)] (to risk-weighted assets)						
Company	$ 2,029,408	12.2 %	$ 1,750,457	10.5 %	$ —	N/A %
Merchants Bank	1,998,836	12.0 %	1,749,216	10.5 %	1,665,920	10.0
Tier I capital[(1)] (to risk-weighted assets)						
Company	1,930,145	11.6 %	1,417,037	8.5 %	—	N/A %
Merchants Bank	1,897,668	11.4 %	1,416,032	8.5 %	1,332,736	8.0
Common Equity Tier I capital[(1)] (to risk-weighted assets)						
Company	1,480,759	8.9 %	1,166,971	7.0 %	—	N/A %
Merchants Bank	1,897,668	11.4 %	1,166,144	7.0 %	1,082,848	6.5
Tier I capital[(1)] (to average assets)						
Company	1,930,145	10.5 %	915,126	5.0 %	—	N/A %
Merchants Bank	1,897,668	10.4 %	912,610	5.0 %	912,610	5.0

(1) As defined by regulatory agencies.

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	Amount	Ratio	Minimum Amount to be Well Capitalized with Basel III Buffer[1] Amount	Ratio	Minimum Amount To Be Well Capitalized[1] 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.

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 above). Management believes, as of September 30, 2024 and December 31, 2023, that the Company and Merchants Bank met all capital adequacy requirements to which they were subject. For additional information regarding dividend restrictions, see the Company's 2023 Annual Report on Form 10–K.

As of September 30, 2024 and 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 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 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. 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 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 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 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. 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 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, 2024 and December 31, 2023.

	Net Interest Income Sensitivity Twelve Months Forward			
	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)			
September 30, 2024:				
Dollar change	$ (104,845)	$ (53,080)	$ 38,044	$ 75,823
Percent change	(19.6)%	(9.9)%	7.1 %	14.2 %
December 31, 2023:				
Dollar change	$ (73,311)	$ (36,576)	$ 29,601	$ 57,294
Percent change	(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 basis point move in interest rates, and 30% for a +/- 200 basis point move in rates. At September 30, 2024 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) Immediate Change in Rates			
	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)			
September 30, 2024:				
Dollar change	$ (9,224)	$ 4,464	$ (584)	$ (1,929)
Percent change	(0.5)%	0.2 %	(0.0)%	(0.1)%
December 31, 2023:				
Dollar change	$ 180,864	$ 92,793	$ (34,800)	$ (79,455)
Percent change	10.8 %	5.5 %	(2.1)%	(4.7)%

Our interest rate risk management policy limits the change in our EVE to 15% for a +/- 100 basis point move in interest rates, and 20% for a +/- 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, 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.”

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, 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.

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, 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

Rule 10b5-1 Trading Plans

During the three months ended September 30, 2024, Scott A. Evans, a director and the Richmond Market President and Chief Operating Officer of Merchants Bank, adopted a stock trading plan on August 7, 2024 intended to satisfy the affirmative defense of Rule 10b5-1(c), pursuant to which he may sell up to 25,000 shares of our common stock prior to March 13, 2025.

ITEM 6. Exhibits

Exhibit Number	Description
3.1	Second Amended and Restated Articles of Incorporation of Merchants 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	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

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 8, 2024	By: /s/ Michael F. Petrie Michael F. Petrie Chairman & Chief Executive Officer
Date: November 8, 2024	By: /s/ Sean A. Sievers Sean A. Sievers Chief Financial 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 8, 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, Sean A. Sievers, 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 8, 2024	/s/ Sean A. Sievers
Date	Sean A. Sievers 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 Sean A. Sievers, 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, 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 8, 2024	/s/ Michael F. Petrie
Date	Michael F. Petrie Chief Executive Officer
November 8, 2024	/s/ Sean A. Sievers
Date	Sean A. Sievers 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.