
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2021

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

For the transition period from _____ to _____.

Commission File Number: 0-22140



META FINANCIAL GROUP INC.®

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

42-1406262

(I.R.S. Employer Identification No.)

5501 South Broadband Lane, Sioux Falls, South Dakota 57108

(Address of principal executive offices and Zip Code)

(605) 782-1767

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	CASH	The NASDAQ Stock Market LLC

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, 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class:	Outstanding at May 3, 2021:
Common Stock, \$.01 par value	31,925,179 Shares
Nonvoting Common Stock, \$.01 par value	0 Nonvoting shares

META FINANCIAL GROUP, INC.
FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

META FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition

(Dollars in Thousands, Except Share and Per Share Data)	March 31, 2021	September 30, 2020
ASSETS	(Unaudited)	(Audited)
Cash and cash equivalents	\$ 3,724,242	\$ 427,367
Investment securities available for sale, at fair value	921,947	814,495
Mortgage-backed securities available for sale, at fair value	558,833	453,607
Investment securities held to maturity, at cost	67,709	87,183
Mortgage-backed securities held to maturity, at cost	4,403	5,427
Loans held for sale	67,635	183,577
Loans and leases	3,657,531	3,322,765
Allowance for credit losses	(98,892)	(56,188)
Federal Reserve Bank and Federal Home Loan Bank stocks, at cost	28,433	27,138
Accrued interest receivable	17,429	16,628
Premises, furniture, and equipment, net	41,510	41,608
Rental equipment, net	211,397	205,964
Bank-owned life insurance	93,542	92,315
Foreclosed real estate and repossessed assets, net	1,483	9,957
Goodwill	309,505	309,505
Intangible assets	36,903	41,692
Prepaid assets	10,201	8,328
Deferred taxes, net	25,435	17,723
Other assets	110,877	82,983
Total assets	\$ 9,790,123	\$ 6,092,074
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing checking	7,928,235	4,356,630
Interest-bearing checking	416,164	157,571
Savings deposits	126,834	47,866
Money market deposits	55,045	48,494
Time certificates of deposit	12,614	20,223
Wholesale deposits	103,521	348,416
Total deposits	8,642,413	4,979,200
Short-term borrowings	—	—
Long-term borrowings	95,336	98,224
Accrued interest payable	679	1,923
Accrued expenses and other liabilities	216,437	165,419
Total liabilities	8,954,865	5,244,766
STOCKHOLDERS' EQUITY		
Preferred stock, 3,000,000 shares authorized, no shares issued and no shares outstanding at March 31, 2021 and September 30, 2020, respectively	—	—
Common stock, \$0.01 par value; 90,000,000 shares authorized, 32,128,403 and 34,479,164 shares issued, 31,926,008 and 34,360,890 shares outstanding at March 31, 2021 and September 30, 2020, respectively	319	344
Common stock, Nonvoting, \$0.01 par value; 3,000,000 shares authorized, no shares issued, none outstanding at March 31, 2021 and September 30, 2020, respectively	—	—
Additional paid-in capital	601,222	594,569
Retained earnings	225,471	234,927
Accumulated other comprehensive income	12,809	17,542
Treasury stock, at cost, 202,395 and 118,274 common shares at March 31, 2021 and September 30, 2020, respectively	(5,655)	(3,677)
Total equity attributable to parent	834,166	843,705
Noncontrolling interest	1,092	3,603
Total stockholders' equity	835,258	847,308
Total liabilities and stockholders' equity	\$ 9,790,123	\$ 6,092,074

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in Thousands, Except Share and Per Share Data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Interest and dividend income:				
Loans and leases, including fees	\$ 68,472	\$ 70,493	\$ 130,128	\$ 139,195
Mortgage-backed securities	2,608	2,493	4,730	4,882
Other investments	4,589	6,417	8,956	12,952
	75,669	79,403	143,814	157,029
Interest expense:				
Deposits	445	8,242	1,241	17,583
FHLB advances and other borrowings	1,374	3,424	2,724	7,058
	1,819	11,666	3,965	24,641
Net interest income	73,850	67,737	139,849	132,388
Provision for credit losses	30,290	37,296	36,379	40,703
Net interest income after provision for credit losses	43,560	30,441	103,470	91,685
Noninterest income:				
Refund transfer product fees	22,680	28,939	23,327	29,131
Tax advance product fees	44,562	29,536	46,522	31,812
Payment card and deposit fees	29,875	23,156	52,439	44,655
Other bank and deposit fees	133	381	370	868
Rental income	9,846	11,100	19,731	23,451
Net gain realized on investment securities	6	—	6	—
Gain on divestitures	—	19,275	—	19,275
Gain (loss) on sale of other	2,133	2,325	4,981	(244)
Other income	4,218	5,801	11,532	9,047
Total noninterest income	113,453	120,513	158,908	157,995
Noninterest expense:				
Compensation and benefits	43,932	34,260	76,263	68,529
Refund transfer product expense	6,146	7,449	6,207	7,621
Tax advance product expense	2,189	1,698	2,559	2,830
Card processing	7,212	6,696	13,329	12,303
Occupancy and equipment expense	6,748	7,013	13,636	13,668
Operating lease equipment depreciation	7,419	8,421	15,000	16,701
Legal and consulting	6,045	5,909	11,292	10,583
Intangible amortization	2,757	3,402	4,770	6,077
Impairment expense	554	507	1,713	750
Other expense	12,969	16,374	23,777	28,464
Total noninterest expense	95,971	91,729	168,546	167,526
Income before income tax expense	61,042	59,225	93,832	82,154
Income tax expense	1,133	5,617	4,665	6,297
Net income before noncontrolling interest	59,909	53,608	89,167	75,857
Net income attributable to noncontrolling interest	843	1,304	2,064	2,485
Net income attributable to parent	\$ 59,066	\$ 52,304	\$ 87,103	\$ 73,372
Earnings per common share				
Basic	\$ 1.84	\$ 1.45	\$ 2.66	\$ 2.00
Diluted	\$ 1.84	\$ 1.45	\$ 2.65	\$ 2.00

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Net income before noncontrolling interest	\$ 59,909	\$ 53,608	\$ 89,167	\$ 75,857
Other comprehensive income (loss):				
Change in net unrealized (loss) on debt securities	(9,923)	(2,079)	(7,077)	(5,492)
Net (gain) realized on investment securities	(6)	—	(6)	—
	(9,929)	(2,079)	(7,083)	(5,492)
Unrealized gain (loss) on currency translation	126	(680)	571	(564)
Deferred income tax effect	(2,493)	(518)	(1,779)	(1,371)
Total other comprehensive (loss)	(7,310)	(2,241)	(4,733)	(4,685)
Total comprehensive income	52,599	51,367	84,434	71,172
Total comprehensive income attributable to noncontrolling interest	843	1,304	2,064	2,485
Comprehensive income attributable to parent	\$ 51,756	\$ 50,063	\$ 82,370	\$ 68,687

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(Dollars in Thousands, Except Share and Per Share Data)

	Meta Financial Group, Inc. Stockholders' Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Total Meta Stockholders' Equity	Noncontrolling Interest	Total Equity
Three Months Ended March 31, 2021								
Balance, December 31, 2020	\$ 326	\$ 598,669	\$ 198,000	\$ 20,119	\$ (5,440)	\$ 811,674	\$ 1,536	\$ 813,210
Cash dividends declared on common stock (\$0.05 per share)	—	—	(1,595)	—	—	(1,595)	—	(1,595)
Shares repurchased	(7)	7	(30,000)	—	(215)	(30,215)	—	(30,215)
Stock compensation	—	2,546	—	—	—	2,546	—	2,546
Total other comprehensive (loss)	—	—	—	(7,310)	—	(7,310)	—	(7,310)
Net income	—	—	59,066	—	—	59,066	843	59,909
Net investment by (distribution to) noncontrolling interests	—	—	—	—	—	—	(1,287)	(1,287)
Balance, March 31, 2021	<u>\$ 319</u>	<u>\$ 601,222</u>	<u>\$ 225,471</u>	<u>\$ 12,809</u>	<u>\$ (5,655)</u>	<u>\$ 834,166</u>	<u>\$ 1,092</u>	<u>\$ 835,258</u>
Balance, December 31, 2019	\$ 372	\$ 587,678	\$ 244,005	\$ 3,895	\$ (3,187)	\$ 832,763	\$ 4,305	\$ 837,068
Cash dividends declared on common stock (\$0.05 per share)	—	—	(1,783)	—	—	(1,783)	—	(1,783)
Issuance of common shares due to exercise of stock options	—	87	—	—	—	87	—	87
Shares repurchased	(26)	26	(82,499)	—	(210)	(82,709)	—	(82,709)
Stock compensation	—	2,891	—	—	—	2,891	—	2,891
Total other comprehensive (loss)	—	—	—	(2,241)	—	(2,241)	—	(2,241)
Net income	—	—	52,304	—	—	52,304	1,304	53,608
Net investment by (distribution to) noncontrolling interests	—	—	—	—	—	—	(1,847)	(1,847)
Balance, March 31, 2020	<u>\$ 346</u>	<u>\$ 590,682</u>	<u>\$ 212,027</u>	<u>\$ 1,654</u>	<u>\$ (3,397)</u>	<u>\$ 801,312</u>	<u>\$ 3,762</u>	<u>\$ 805,074</u>

(Dollars in Thousands, Except Share and Per Share Data)

Meta Financial Group, Inc. Stockholders' Equity								
Six Months Ended March 31, 2021	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Meta Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, September 30, 2020	\$ 344	\$ 594,569	\$ 234,927	\$ 17,542	\$ (3,677)	\$ 843,705	\$ 3,603	\$ 847,308
Adoption of Accounting Standards Update 2016-13, net of income taxes	—	—	(8,351)	—	—	(8,351)	(2,452)	(10,803)
Cash dividends declared on common stock (\$0.10 per share)	—	—	(3,209)	—	—	(3,209)	—	(3,209)
Issuance of common shares due to ESOP	2	3,034	—	—	—	3,036	—	3,036
Shares repurchased	(27)	27	(84,999)	—	(1,978)	(86,977)	—	(86,977)
Stock compensation	—	3,592	—	—	—	3,592	—	3,592
Total other comprehensive (loss)	—	—	—	(4,733)	—	(4,733)	—	(4,733)
Net income	—	—	87,103	—	—	87,103	2,064	89,167
Net investment by (distribution to) noncontrolling interests	—	—	—	—	—	—	(2,123)	(2,123)
Balance, March 31, 2021	\$ 319	\$ 601,222	\$ 225,471	\$ 12,809	\$ (5,655)	\$ 834,166	\$ 1,092	\$ 835,258
Six Months Ended March 31, 2020								
Balance, September 30, 2019	\$ 378	\$ 580,826	\$ 252,813	\$ 6,339	\$ (445)	\$ 839,911	\$ 4,047	\$ 843,958
Cash dividends declared on common stock (\$0.10 per share)	—	—	(3,653)	—	—	(3,653)	—	(3,653)
Issuance of common shares due to exercise of stock options	—	205	—	—	—	205	—	205
Issuance of common shares due to restricted stock	2	—	—	—	—	2	—	2
Issuance of common shares due to ESOP	1	3,219	—	—	—	3,220	—	3,220
Shares repurchased	(35)	35	(110,505)	—	(2,952)	(113,457)	—	(113,457)
Stock compensation	—	6,397	—	—	—	6,397	—	6,397
Total other comprehensive (loss)	—	—	—	(4,685)	—	(4,685)	—	(4,685)
Net income	—	—	73,372	—	—	73,372	2,485	75,857
Net investment by (distribution to) noncontrolling interests	—	—	—	—	—	—	(2,770)	(2,770)
Balance, March 31, 2020	\$ 346	\$ 590,682	\$ 212,027	\$ 1,654	\$ (3,397)	\$ 801,312	\$ 3,762	\$ 805,074

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)	Six Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net income before noncontrolling interest	\$ 89,167	\$ 75,857
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	28,414	33,713
Stock compensation	3,592	6,397
Provision (recovery):		
Credit losses	36,379	40,703
Deferred taxes	(5,933)	(633)
Loans held for sale:		
Originations	(361,722)	(32,234)
Proceeds from sales	575,931	160,290
Net change	5,500	17,860
Fair value adjustment of foreclosed real estate	466	104
Net realized (gain) loss:		
Other assets	—	361
Divestitures	—	(19,275)
Foreclosed real estate and repossessed assets	(4)	5,039
Securities available for sale, net	(6)	—
Loans held for sale	(4,610)	(3,265)
Leases receivable and equipment	(360)	(1,893)
Net change:		
Other assets	(28,635)	(4,588)
Deposits held for sale	—	1,535
Accrued interest payable	(1,244)	(5,807)
Accrued expenses and other liabilities	51,018	(10,470)
Accrued interest receivable	(801)	2,325
Change in bank-owned life insurance value	(1,227)	(1,254)
Impairment on assets held for sale	—	242
Net cash provided by operating activities	385,925	265,007
Cash flows from investing activities:		
Securities available for sale:		
Purchases	(411,458)	(40,686)
Proceeds from sales	50,468	—
Proceeds from maturities and principal repayments	137,635	106,049
Securities held to maturity:		
Proceeds from maturities and principal repayments	19,536	18,897
Loans and leases:		
Purchases	(99,083)	(117,677)
Proceeds from sales	12,005	3,099
Net change	(353,781)	(130,037)
Proceeds from sales of foreclosed real estate and repossessed assets	8,021	23,085
Federal Reserve Bank and Federal Home Loan Bank stock:		
Purchases	(1,295)	(421,068)
Redemption	—	422,040
Rental equipment:		
Purchases	(26,212)	(22,675)
Proceeds from sales	7,830	10,508
Net change	—	3,131
Premises, furniture, and equipment:		
Purchases	(4,254)	(4,817)
Proceeds from divestitures	—	3,498
Net cash (used in) investing activities	(660,588)	(146,653)
Cash flows from financing activities:		
Net change:		
Checking, savings, and money market deposits	3,915,717	746,382
Time certificates of deposit	(7,609)	(83,793)
Wholesale deposits	(244,895)	(748,258)

FHLB and other borrowings	—	100,000
Federal funds	—	(25,000)
Securities sold under agreements to repurchase	—	(4,019)
Distribution to noncontrolling interests	(2,123)	(2,770)
Proceeds from other liabilities	—	1,633
Principal payments:		
Other liabilities	(2,957)	(4,372)
Capital lease obligations	(16)	(1,722)
Cash dividends paid	(3,209)	(3,653)
Issuance of common stock due to ESOP	3,036	3,220
Issuance of common stock due to restricted stock	—	2
Proceeds from exercise of stock options and issuance of common stock	—	205
Shares repurchased	(86,977)	(113,457)
Net cash provided by (used in) financing activities	3,570,967	(135,602)
Effect of exchange rate changes on cash	571	(564)
Net change in cash and cash equivalents	3,296,875	(17,812)
Cash and cash equivalents at beginning of fiscal year	427,367	126,545
Cash and cash equivalents at end of fiscal period	\$ 3,724,242	\$ 108,733

(Dollars in Thousands)	Six Months Ended March 31,	
	2021	2020
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 3,063	\$ 17,473
Income taxes	3,176	5,148
Franchise taxes	100	131
Other taxes	591	415
Supplemental schedule of non-cash investing activities		
Transfers		
Loans and leases to foreclosed real estate and repossessed assets	9	5,983
Loans and leases to rental equipment	2,378	430
Rental equipment to loan and leases	62	605
Loans and leases to held for sale	99,922	277,016
Other assets to held for sale	—	7,858
Deposits to held for sale	—	288,975
Recognition of operating lease ROU assets, net of remeasurements	12,681	27,019

See Notes to Condensed Consolidated Financial Statements.

NOTE 1. BASIS OF PRESENTATION

The interim unaudited Condensed Consolidated Financial Statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2020 included in Meta Financial Group, Inc.'s ("Meta" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on November 30, 2020. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the three and six months ended March 31, 2021 are not necessarily indicative of the results expected for the fiscal year ending September 30, 2021.

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These changes and reclassifications did not impact previously reported net income or comprehensive income.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ADOPTED ACCOUNTING STANDARDS UPDATES ("ASU")

Significant accounting policies in effect and disclosed within the Company's most recent audited consolidated financial statements as of September 30, 2020 remain substantially unchanged with the exception of the accounting policies for allowance for credit losses and securities impairment as a result of adopting ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and related ASUs, as described below.

Allowance for Credit Losses ("ACL"). The ACL represents management's estimate of current credit losses expected to be incurred by the loan and lease portfolio over the life of each financial asset as of the balance sheet date. The Company individually evaluates loans and leases that do not share similar risk characteristics with other financial assets for impairment, which generally means loans and leases identified as troubled debt restructurings or loans and leases on nonaccrual status. All other loans and leases are evaluated collectively for impairment. A reserve for unfunded credit commitments such as letters of credit and binding unfunded loan commitments is recorded in other liabilities on the Condensed Consolidated Statements of Financial Condition.

Individually evaluated loans and leases are a key component of the ACL. Generally, the Company measures impairment on individually evaluated loans based on the fair value of the collateral less estimated selling costs, as the Company considers these financial assets to be collateral dependent. If an individually evaluated loan or lease is not collateral dependent, impairment is measured at the present value of expected future cash flows discounted at the loan or lease initial effective interest rate.

The impairment of all other loans and leases is evaluated collectively by various characteristics. The collective evaluation of expected losses in all commercial finance portfolios is based on a cohort loss rate and adjustments for forward-looking information, including industry and macroeconomic forecasts. The cohort loss rate is a life of loan loss rate that immediately reverts to historical loss information for the remaining maturity of the financial asset. Management has elected to use a twelve-month reasonable and supportable forecast for forward-looking information. Factors utilized in the determination of the allowance include historical loss experience, current economic forecasts and measurement date credit characteristics such as product type, delinquency, and industry. The unfunded credit commitments depend on these same factors, as well as estimates of lines of credit usage. The various quantitative and qualitative factors used in the methodologies are reviewed quarterly.

The collective evaluation of expected credit losses for certain consumer lending portfolios utilize different methodologies when estimating expected credit losses. The Company's student loan portfolio utilizes a roll-rate historical loss rate and adjustments for forward-looking information, including macroeconomic conditions. Management has elected to use a twelve-month reasonable and supportable forecast with an immediate reversion to historical loss rates. Factors utilized in the determination of the allowance include historical loss experience, current economic forecasts, and measurement date credit characteristics including delinquency.

Loans and leases are charged off to the extent they are deemed uncollectible. Net charge-offs are included in historical data utilized for calculating the ACL. For commercial loans, the Company generally fully charges off or charges down to net realizable value (fair value of collateral, less estimated costs to sell) for loans secured by collateral when management judges the loan to be uncollectible, repayment is deemed to be protracted beyond a reasonable timeframe, the loan has been classified as a loss by either the Company's internal loan review process or its banking regulatory agencies, the Company has filed bankruptcy and the loss becomes evident owing to lack of assets, or the loans meets a defined number of days past due unless the loan is both well-secured and is in the process of collection. For consumer loans, the Company fully charges off or charges down to net realizable value when deemed uncollectible due to bankruptcy or other factors or meets a defined number of days past due.

The amount of ACL depends significantly on management's estimates or key factors and assumptions affecting valuation, appraisals of collateral, evaluations of performance and status, the amounts and timing of future cash flows expected to be received, forecasts of future economic conditions and reversion periods. Such estimates, appraisals, evaluations, cash flows and forecasts may be subject to frequent adjustments due to changing economic prospects of borrowers, lessees, properties or economic conditions. These estimates are reviewed quarterly and adjustments, if necessary, are recorded in the provision for credit losses in the periods in which they become known.

Accrued interest receivable is presented separately on the Condensed Consolidated Statements of Financial Condition, and an ACL is not recorded for these balances. Generally, when a loan or lease is placed on nonaccrual status, typically when the collection of interest or principal is 90 days or more past due, uncollected interest accrued in prior years is charged off against the ACL and interest accrued in the current year is reversed against interest income.

Management maintains a framework of controls over the estimation process for the ACL, including review of collective reserve methodologies for compliance with GAAP. Management has a quarterly process to review the appropriateness of historical observation periods and loss assumptions and risk ratings assigned to loans and leases, if applicable. Management reviews its qualitative framework and the effect on the collective reserve compared with relevant credit risk factors and consistency with credit trends. Management also maintains controls over information systems, models and spreadsheets used in the quantitative components of the reserve estimate. This includes the quality and accuracy of historical data used to derive loss rates, the inputs to industry and macroeconomic forecasts and the reversion periods utilized. The results of this process are summarized and presented to management quarterly for their approval of the recorded allowance. See Note 6. Loans and Leases, Net for further information.

Securities Impairment. The Company evaluates investment securities held-to-maturity for credit losses on a quarterly basis and records any such losses as a component of provision for credit losses in the Condensed Consolidated Statements of Operations. The Company has concluded that its portfolio as of March 31, 2021 has a zero risk of credit loss due to the U.S. Government financial guarantees underlying the securities within the held-to-maturity portfolio and as a result has not recorded an allowance for credit loss.

The Company evaluates investment securities available-for-sale for credit losses on a quarterly basis and records any such losses as a component of provision for credit losses in the Condensed Consolidated Statements of Operations. See Note 5. Securities for further information.

Adopted ASUs

Effective October 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and subsequent related ASUs (collectively "Topic 326"), which changes the impairment model for most financial assets, including trade and other receivables, debt securities held-to-maturity, loans, net investments in leases, purchased financial assets with credit deterioration, and off-balance sheet credit exposures. ASU 2016-13 requires the use of a current expected credit loss ("CECL") methodology to determine the allowance for credit losses for loans and debt securities held-to-maturity. CECL requires loss estimates for the remaining estimated life of the assets to be measured using historical loss data, adjustments for current conditions, and adjustments for reasonable and supportable forecasts of future economic conditions. The Company adopted CECL using the modified retrospective approach with a cumulative effect adjustment to Retained Earnings recorded on October 1, 2020.

Our adoption resulted in an ACL as of October 1, 2020 that is larger than the allowance for loan and lease losses (“ALLL”) that would have been recorded under legacy guidance on the same date by \$12.8 million in total for all portfolios. A portion of this increase is a result of new requirements to record ACL on acquired loans and leases, regardless of any credit mark recorded. Under legacy guidance, credit marks were included in the determination of fair value adjustments reflected as a discount to the carrying value of the loans and leases and an ALLL was not recorded on acquired loans and leases until evidence of credit deterioration existed post acquisition. The remaining credit and interest mark will continue to accrete over the life of the loan or lease but will no longer be considered when estimating the ACL for acquired loans and leases under CECL. The adoption of CECL also resulted in an increase in the liability of unfunded commitments of \$0.8 million. For other assets in scope of the standard such as held-to-maturity debt securities and trade and other receivables, the impact from this ASU was inconsequential. The cumulative tax effected adjustment to record ACL and to increase the unfunded commitments liability resulted in a reduction to retained earnings of \$8.4 million along with \$2.5 million attributable to noncontrolling interests. Post adoption, as loans and leases are added to the portfolio, the Company expects higher levels of ACL determined by CECL assumptions, resulting in accelerated recognition of provision for credit losses, as compared to historical results. In response to the COVID-19 pandemic, regulatory agencies have published a final rule that provides the option to delay the cumulative effect of the day 1 impact to CECL adoption on regulatory capital for two years, followed by a three-year phase in period. Management has elected this five-year transition period consistent with the final rule. Additional and modified disclosure requirements under CECL are included in Note 5. Securities and Note 6. Loans and Leases, Net.

The Company also adopted the following ASUs on October 1, 2020, none of which had a material impact on the Company’s Condensed Consolidated Financial Statements:

- ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*.
- ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*.
- ASU 2018-17, *Consolidation (Topic 810) – Targeted Improvements to Related Party Guidance for Variable Interest Entities*.

ASUs to be Adopted

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this ASU are intended to simplify the accounting for income taxes by removing certain exceptions to the general rules found in Topic 740, *Income Taxes*. The majority of the amendments are to be applied on a prospective basis. This ASU is effective for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying Interactions between Topics 321, 323 and 815*. This ASU clarifies the interactions between Topic 321, Topic 323 and Topic 815, including accounting for the transition into and out of the equity method and measuring certain purchased options and forward contracts to acquire investments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. Management is currently evaluating the impact of this guidance on the consolidated financial statements.

ASU 2020-04, *Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in this ASU provide optional expedients and exceptions to applying GAAP to contracts, hedging relationships and other transactions impacted by reference rate reform if certain criteria are met. The amendments include a one-time sale or transfer election of held-to-maturity debt securities impacted by reference rate reform. The amendments in this ASU are effective upon issuance through December 31, 2022. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*. This ASU clarifies that an entity should amortize any premium, if applicable, to the next call date, which is the first date when a call option at a specified price becomes exercisable. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. Management is currently evaluating the impact of this guidance on the consolidated financial statements.

ASU 2020-10, *Codification Improvements*. This ASU provides clarification, corrects unintended application of guidance, and makes minor improvements to various Topics that are not expected to have a significant impact on the Company's current accounting policies and practices. Amendments within this ASU are effective for fiscal years beginning after December 15, 2020.

NOTE 3. SIGNIFICANT EVENTS

COVID-19 Pandemic

The COVID-19 pandemic began impacting the U.S. and global economies in the first calendar quarter of 2020. Since the onset of this pandemic, macroeconomic conditions and markets have significantly deteriorated. In response to the impacts of COVID-19, the U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") on March 27, 2020. The goal of the CARES Act is to prevent a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. In addition to the CARES Act, the U.S. federal government enacted the Consolidated Appropriations Act of 2021 ("CAA") on December 27, 2020 and the American Rescue Plan Act of 2021 ("ARP Act") on March 11, 2021, which provide additional COVID-19 relief to American families and business.

The Company is participating in the Paycheck Protection Program ("PPP"), which is being administered by the Small Business Administration ("SBA"). It is the Company's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government and that a portion of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. See Note 6. Loans and Leases, Net for further information related to this program.

In response to the COVID-19 pandemic impact on customers, the Company is engaging in more frequent communication with borrowers to better understand their situation and challenges and has been offering credit-worthy borrowers experiencing temporary hardship certain loan and lease modifications ("COVID modifications"), such as payment deferrals, as a result of interagency guidance issued on March 22, 2020 encouraging companies to work with customers impacted by COVID-19. The Company elected to treat COVID modifications on leases as part of the enforceable rights and obligations of the parties under the existing lease contract, resulting in these payment deferrals being treated as variable lease payments under the existing lease versus lease modifications. Additionally, for COVID modifications on loans, the Company adjusted its effective interest rate to reflect the payment deferral modification and continued accruing interest during this period. Short-term modifications made on a good faith basis in response to COVID-19 borrowers whose payments were current prior to any relief, are not to be considered troubled debt restructurings, and will not be considered delinquent so long as they meet their revised obligations under the modification agreement.

The table below presents the outstanding balances of active COVID-19 related modifications.

(Dollars in Thousands)	As of the Period Ended		
	March 31, 2021	December 31, 2020	September 30, 2020
National Lending			
Term lending	\$ 5,460	\$ 18,321	\$ 26,559
Asset based lending	—	1,124	7,924
Factoring	—	—	18,434
Lease financing	379	1,637	5,896
Insurance premium finance	—	—	230
SBA/USDA	—	—	7,724
Other commercial finance	—	—	69
Commercial finance	5,839	21,082	66,836
Consumer credit products	301	1,210	1,574
Other consumer finance	1,627	2,682	4,223
Consumer finance	1,928	3,892	5,797
Total National Lending	7,767	24,974	72,633
Community Banking			
Commercial real estate and operating	58,707	60,319	120,695
Total Community Banking	58,707	60,319	120,695
Total loans and leases	66,474	85,293	193,328
Total COVID-19 related modifications	\$ 66,474	\$ 85,293	\$ 193,328

NOTE 4. DIVESTITURES

During the fiscal year ended September 30, 2020, the Company sold the Bank's Community Bank division, a component of the Company's Corporate segment, to Central Bank, a state-chartered bank headquartered in Storm Lake, Iowa. The sale included \$290.5 million of deposits; \$268.6 million of loans; \$4.9 million of premises, furniture, and equipment; and \$1.3 million of other assets and closed February 29, 2020 (the "Closing Date"). The sale resulted in a gain of \$19.3 million before tax that was recognized within noninterest income on the Company's Condensed Consolidated Statements of Operations.

The Company entered a servicing agreement with Central Bank for the retained Community Bank loan portfolio that became effective on the Closing Date. The Company recognized \$1.6 million and \$0.3 million in servicing fee expense during the six months ended March 31, 2021 and 2020, respectively, and \$3.5 million for the fiscal year ended September 30, 2020.

Since the Closing Date, the Company has entered into subsequent loan portfolio sale agreements with Central Bank. The Company sold additional loans from the retained Community Bank portfolio in the amount of \$103.2 million and none in the three months ended March 31, 2021 and 2020, respectively, and \$233.0 million and none for the six months ended March 31, 2021 and 2020, respectively. The sales did not result in any significant gains or losses to the Condensed Consolidated Statements of Operations.

NOTE 5. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of available for sale ("AFS") and held to maturity ("HTM") debt securities are presented below.

(Dollars in Thousands)	Securities Available For Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
At March 31, 2021				
Debt securities AFS				
SBA securities	\$ 166,348	\$ 3,846	\$ (188)	\$ 170,006
Obligations of states and political subdivisions	2,807	10	(1)	2,816
Non-bank qualified obligations of states and political subdivisions	288,119	8,285	(682)	295,722
Asset-backed securities	453,686	2,726	(3,009)	453,403
Mortgage-backed securities	553,184	11,613	(5,964)	558,833
Total debt securities AFS	\$ 1,464,144	\$ 26,480	\$ (9,844)	\$ 1,480,780
At September 30, 2020				
Debt securities AFS				
SBA securities	\$ 159,722	\$ 5,391	\$ (158)	\$ 164,955
Obligations of states and political subdivisions	825	16	—	841
Non-bank qualified obligations of states and political subdivisions	314,819	8,978	(23)	323,774
Asset-backed securities	329,139	2,015	(6,229)	324,925
Mortgage-backed securities	439,879	14,567	(839)	453,607
Total debt securities AFS	\$ 1,244,384	\$ 30,967	\$ (7,249)	\$ 1,268,102
(Dollars in Thousands)	Securities Held To Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
At March 31, 2021				
Debt securities HTM				
Non-bank qualified obligations of states and political subdivisions	\$ 67,709	\$ 1,083	\$ —	\$ 68,792
Mortgage-backed securities	4,403	99	—	4,502
Total debt securities HTM	\$ 72,112	\$ 1,182	\$ —	\$ 73,294
At September 30, 2020				
Debt securities HTM				
Non-bank qualified obligations of states and political subdivisions	\$ 87,183	\$ 1,040	\$ (29)	\$ 88,194
Mortgage-backed securities	5,427	124	—	5,551
Total debt securities HTM	\$ 92,610	\$ 1,164	\$ (29)	\$ 93,745

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, were as follows:

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
(Dollars in Thousands)						
At March 31, 2021						
Debt securities AFS						
SBA securities	\$ 25,310	\$ (24)	\$ 31,825	\$ (164)	\$ 57,135	\$ (188)
Obligations of state and political subdivisions	1,980	(1)	—	—	1,980	(1)
Non-bank qualified obligations of states and political subdivisions	53,328	(682)	—	—	53,328	(682)
Asset-backed securities	75,473	(782)	189,365	(2,227)	264,838	(3,009)
Mortgage-backed securities	291,358	(5,088)	35,484	(876)	326,842	(5,964)
Total debt securities AFS	<u>\$ 447,449</u>	<u>\$ (6,577)</u>	<u>\$ 256,674</u>	<u>\$ (3,267)</u>	<u>\$ 704,123</u>	<u>\$ (9,844)</u>

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
(Dollars in Thousands)						
At September 30, 2020						
Debt securities AFS						
SBA securities	\$ 32,257	\$ (102)	\$ 9,875	\$ (56)	\$ 42,132	\$ (158)
Non-bank qualified obligations of states and political subdivisions	6,265	(6)	3,103	(17)	9,368	(23)
Asset-backed securities	106,474	(1,089)	178,686	(5,140)	285,160	(6,229)
Mortgage-backed securities	138,338	(839)	—	—	138,338	(839)
Total debt securities AFS	<u>\$ 283,334</u>	<u>\$ (2,036)</u>	<u>\$ 191,664</u>	<u>\$ (5,213)</u>	<u>\$ 474,998</u>	<u>\$ (7,249)</u>

There were no debt securities HTM with a continuous loss position at March 31, 2021.

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
(Dollars in Thousands)						
At September 30, 2020						
Debt securities HTM						
Non-bank qualified obligations of states and political subdivisions	\$ 7,397	\$ (9)	\$ 3,637	\$ (20)	\$ 11,034	\$ (29)
Total debt securities HTM	<u>\$ 7,397</u>	<u>\$ (9)</u>	<u>\$ 3,637</u>	<u>\$ (20)</u>	<u>\$ 11,034</u>	<u>\$ (29)</u>

The adoption of CECL was inconsequential to debt securities AFS. At March 31, 2021, there were no ACL for debt securities AFS. At March 31, 2021, there were 49 securities AFS in an unrealized loss position. Management assessed each investment security with unrealized losses for credit impairment and determined substantially all unrealized losses on these securities were due to credit spreads and interest rates versus credit impairment. As part of that assessment, management evaluated and concluded that it is more-likely-than-not that the Company will not be required and does not intend to sell any of the securities prior to recovery of the amortized cost.

The amortized cost and fair value of debt securities by contractual maturity are shown below. Certain securities have call features that allow the issuer to call the security prior to maturity. Expected maturities may differ from contractual maturities in mortgage-backed securities ("MBS") because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, MBS are not included in the maturity categories in the following maturity summary. The expected maturities of certain SBA securities may differ from contractual maturities because the borrowers may have the right to prepay the obligation. However, certain prepayment penalties may apply.

(Dollars in Thousands)	At March 31, 2021		At September 30, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities AFS at Fair Value				
Due in one year or less	\$ 245	\$ 247	\$ 1,385	\$ 1,398
Due after one year through five years	17,621	18,199	20,805	21,769
Due after five years through ten years	51,152	52,585	32,441	34,025
Due after ten years	841,942	850,916	749,874	757,303
	910,960	921,947	804,505	814,495
Mortgage-backed securities	553,184	558,833	439,879	453,607
Total securities AFS, at fair value	\$ 1,464,144	\$ 1,480,780	\$ 1,244,384	\$ 1,268,102

(Dollars in Thousands)	At March 31, 2021		At September 30, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities HTM at Fair Value				
Due after ten years	\$ 67,709	\$ 68,792	\$ 87,183	\$ 88,194
	67,709	68,792	87,183	88,194
Mortgage-backed securities	4,403	4,502	5,427	5,551
Total securities HTM, at cost	\$ 72,112	\$ 73,294	\$ 92,610	\$ 93,745

Other investments, at cost, include equity securities without a readily determinable fair value, which are included in other assets on the Condensed Consolidated Statements of Financial Condition, and shares of stock in the Federal Reserve Bank (the "FRB") of Minneapolis and the FHLB of Des Moines.

Equity Securities

Equity securities without a readily determinable fair value totaled \$13.7 million at March 31, 2021 and \$11.0 million at September 30, 2020.

FRB Stock

The Bank is required by federal law to subscribe to capital stock (divided into shares of \$100 each) as a member of the FRB of Minneapolis with an amount equal to six per centum of the paid-up capital stock and surplus. One-half of the subscription is paid at time of application, and one-half is subject to call of the Board of Governors of the Federal Reserve System. FRB of Minneapolis stock held by the Bank totaled \$19.7 million at March 31, 2021 and September 30, 2020. These equity securities are 'restricted' in that they can only be owned by member banks.

FHLB Stock

The Company's borrowings from the FHLB are secured by a blanket collateral agreement with respect to a percentage of unencumbered loans and the pledge of specific investment securities. Such advances can be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities.

The investments in the FHLB stock are required investments related to the Company's membership in and current borrowings from the FHLB of Des Moines. The investments in the FHLB of Des Moines could be adversely impacted by the financial operations of the FHLB and actions of their regulator, the Federal Housing Finance Agency.

The FHLB stock is carried at cost since it is generally redeemable at par value. The carrying value of the stock held at the FHLB was \$8.8 million and \$7.5 million at March 31, 2021 and September 30, 2020, respectively.

These equity securities are 'restricted' in that they can only be sold back to the respective institution from which they were acquired or another member institution at par. Therefore, FRB and FHLB stocks are less liquid than other marketable equity securities, and the fair value approximates cost. The Company evaluates impairment for investments held at cost on at least an annual basis based on the ultimate recoverability of the par value.

Equity Security Impairment

For investments held at cost, impairment is evaluated on at least an annual basis on the recoverability of the par value. All other equity investments, including those under the equity method, are reviewed for other-than-temporary impairment on at least a quarterly basis. The Company recognized \$1.5 million in impairment recognized for such investments for the six months ended March 31, 2021.

NOTE 6. LOANS AND LEASES, NET

Loans and leases consist of the following:

(Dollars in Thousands)	March 31, 2021	September 30, 2020
National Lending		
Term lending	\$ 891,414	\$ 805,323
Asset based lending	248,735	182,419
Factoring	277,612	281,173
Lease financing	308,169	281,084
Insurance premium finance	344,841	337,940
SBA/USDA	331,917	318,387
Other commercial finance	103,234	101,658
Commercial finance	2,505,922	2,307,984
Consumer credit products	104,842	89,809
Other consumer finance	130,822	134,342
Consumer finance	235,664	224,151
Tax services	225,921	3,066
Warehouse finance	332,456	293,375
Total National Lending	3,299,963	2,828,576
Community Banking		
Commercial real estate and operating	335,587	457,371
Consumer one-to-four family real estate and other	4,567	16,486
Agricultural real estate and operating	7,911	11,707
Total Community Banking	348,065	485,564
Total loans and leases	3,648,028	3,314,140
Net deferred loan origination costs (fees)	9,503	8,625
Total gross loans and leases	3,657,531	3,322,765
Allowance for credit losses	(98,892)	(56,188)
Total loans and leases, net	\$ 3,558,639	\$ 3,266,577

During the six months ended March 31, 2021, the Company transferred \$99.9 million of Community Banking loans to held for sale. During the six months ended March 31, 2020, the Company transferred \$277.0 million of Community Banking loans to held for sale.

During the six months ended March 31, 2021 and 2020, the Company originated \$361.7 million of other consumer finance, SBA/USDA, and consumer credit product loans as held for sale and \$32.2 million of SBA/USDA and consumer credit product loans as held for sale, respectively.

The Company sold held for sale loans resulting in proceeds of \$476.0 million and gains on sale of \$4.6 million during the six months ended March 31, 2021. The Company sold held for sale loans resulting in proceeds of \$432.0 million and gains on sale of \$6.2 million during the six months ended March 31, 2020.

Loans purchased and sold by portfolio segment, including participation interests, for the three and six months ended were as follows:

(Dollars in Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Loans Purchased				
Loans held for investment:				
Total National Lending	\$ 33,605	\$ 89,424	\$ 96,236	\$ 103,888
Total Community Banking	548	9,440	2,847	13,789
Total purchases	\$ 34,153	\$ 98,864	\$ 99,083	\$ 117,677
Loans Sold				
Loans held for sale:				
Total National Lending	\$ 24,382	\$ 17,255	\$ 346,246	\$ 160,290
Total Community Banking	—	271,681	129,788	271,681
Loans held for investment:				
Total Community Banking	—	—	—	3,099
Total sales	\$ 24,382	\$ 288,936	\$ 476,034	\$ 435,070

Leasing Portfolio. The net investment in direct financing and sales-type leases was comprised of the following:

(Dollars in Thousands)	March 31, 2021	September 30, 2020
Carrying amount	\$ 327,238	\$ 299,487
Unguaranteed residual assets	17,835	17,203
Unamortized initial direct costs	2,247	2,078
Unearned income	(36,904)	(35,606)
Total net investment in direct financing and sales-type leases	\$ 310,416	\$ 283,162

The carrying amount of direct financing and sales-type leases subject to residual value guarantees was \$8.1 million at March 31, 2021.

The components of total lease income were as follows:

(Dollars in Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Interest income - loans and leases				
Interest income on net investments in direct financing and sales-type leases	\$ 6,116	\$ 4,375	\$ 11,435	\$ 8,462
Leasing and equipment finance noninterest income				
Lease income from operating lease payments	9,735	11,263	19,776	22,466
Profit (loss) recorded on commencement date on sales-type leases	59	16	130	487
Other ⁽¹⁾	1,687	1,831	1,756	2,581
Total leasing and equipment finance noninterest income	11,481	13,110	21,662	25,534
Total lease income	\$ 17,597	\$ 17,485	\$ 33,097	\$ 33,996

⁽¹⁾ Other leasing and equipment finance noninterest income consists of gains (losses) on sales of leased equipment, fees and service charges on leases and gains (losses) on sales of leases.

Undiscounted future minimum lease payments receivable for direct financing and sales-type leases and a reconciliation to the carrying amount recorded were as follows:

(Dollars in Thousands)	March 31, 2021
Remaining in 2021	\$ 63,369
2022	108,413
2023	79,701
2024	47,563
2025	20,468
Thereafter	7,724
Equipment under leases not yet commenced	—
Total undiscounted future minimum lease payments receivable for direct financing and sales-type leases	327,238
Third-party residual value guarantees	—
Total carrying amount of direct financing and sales-type lease	\$ 327,238

The Company did not record any contingent rental income from direct financing and sales-type leases in the six months ended March 31, 2021.

The COVID-19 pandemic began impacting the U.S. and global economies in the first calendar quarter of 2020. Since the onset of this pandemic, macroeconomic conditions and markets have significantly deteriorated. Although the ultimate impact of this pandemic on the Company's loan and lease portfolio is difficult to predict, management continues to evaluate the loan and lease portfolio in order to assess the impact on repayment sources and underlying collateral that could result in additional losses and the impact to our customers and businesses as a result of COVID-19 and will refine our estimate as more information becomes available.

Effective October 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and subsequent related ASUs on a modified retrospective basis. Financial information at and for the quarter ended March 31, 2021 is reflected as such. The historical information disclosed is in accordance with Topic 310.

Activity in the allowance for credit losses and balances of loans and leases by portfolio segment was as follows:

(Dollars in Thousands)	Three Months Ended March 31, 2021				
	Beginning Balance	Provision (Recovery) for Credit Losses ⁽²⁾	Charge-offs	Recoveries	Ending Balance
Allowance for credit losses:					
National Lending					
Term lending	\$ 28,220	\$ 1,396	\$ (2,477)	\$ 176	\$ 27,315
Asset based lending	1,809	539	(599)	—	1,749
Factoring	3,719	(545)	—	36	3,210
Lease financing	6,784	420	(471)	130	6,863
Insurance premium finance	1,285	103	(149)	87	1,326
SBA/USDA	3,164	136	—	—	3,300
Other commercial finance	479	62	—	—	541
Commercial finance	45,460	2,111	(3,696)	429	44,304
Consumer credit products	835	155	—	—	990
Other consumer finance	10,176	266	(419)	70	10,093
Consumer finance	11,011	421	(419)	70	11,083
Tax services	1,412	27,680	—	54	29,146
Warehouse finance	319	13	—	—	332
Total National Lending	58,202	30,225	(4,115)	553	84,865
Community Banking					
Commercial real estate and operating	14,121	(22)	(134)	—	13,965
Consumer one-to-four family real estate and other	19	(2)	—	—	17
Agricultural real estate and operating	47	(2)	—	—	45
Total Community Banking	14,187	(26)	(134)	—	14,027
Total loans and leases	72,389	30,199	(4,249)	553	98,892
Unfunded commitments⁽¹⁾	688	91	—	—	779
Total	\$ 73,077	\$ 30,290	\$ (4,249)	\$ 553	\$ 99,671

⁽¹⁾ Reserve for unfunded commitments is recognized within other liabilities on the Condensed Consolidated Statements of Financial Condition.

⁽²⁾ As a result of the adoption of CECL, effective October 1, 2020, the provision for credit losses includes the provision for unfunded commitments that was previously included within other noninterest expense.

Six Months Ended March 31, 2021

(Dollars in Thousands)	Beginning Balance	Impact of CECL Adoption	Provision (Recovery) for Credit Losses ⁽²⁾	Charge-offs	Recoveries	Ending Balance
Allowance for credit losses:						
National Lending						
Term lending	\$ 15,211	\$ 9,999	\$ 7,422	\$ (5,789)	\$ 472	\$ 27,315
Asset based lending	1,406	164	1,378	(1,199)	—	1,749
Factoring	3,027	987	(1,961)	(1)	1,158	3,210
Lease financing	7,023	(556)	1,532	(1,347)	211	6,863
Insurance premium finance	2,129	(965)	591	(805)	376	1,326
SBA/USDA	940	2,720	(361)	—	1	3,300
Other commercial finance	182	364	(5)	—	—	541
Commercial finance	29,918	12,713	8,596	(9,141)	2,218	44,304
Consumer credit products	845	—	145	—	—	990
Other consumer finance	2,821	5,998	1,748	(637)	163	10,093
Consumer finance	3,666	5,998	1,893	(637)	163	11,083
Tax services	2	—	28,134	—	1,010	29,146
Warehouse finance	294	(1)	39	—	—	332
Total National Lending	33,880	18,710	38,662	(9,778)	3,391	84,865
Community Banking						
Commercial real estate and operating	21,867	(5,616)	(2,141)	(145)	—	13,965
Consumer one-to-four family real estate and other	298	(247)	(34)	—	—	17
Agricultural real estate and operating	143	(74)	(24)	—	—	45
Total Community Banking	22,308	(5,937)	(2,199)	(145)	—	14,027
Total loans and leases	56,188	12,773	36,463	(9,923)	3,391	98,892
Unfunded commitments⁽¹⁾	32	831	(84)	—	—	779
Total	\$ 56,220	\$ 13,604	\$ 36,379	\$ (9,923)	\$ 3,391	\$ 99,671

⁽¹⁾ Reserve for unfunded commitments is recognized within other liabilities on the Condensed Consolidated Statements of Financial Condition.

⁽²⁾ As a result of the adoption of CECL, effective October 1, 2020, the provision for credit losses includes the provision for unfunded commitments that was previously included within other noninterest expense.

Three Months Ended March 31, 2020

(Dollars in Thousands)	Beginning Balance	Provision (Recovery) for Loan and Lease Losses	Charge-offs	Recoveries	Ending Balance
Allowance for loan and lease losses:					
National Lending					
Term lending	\$ 6,750	\$ 5,679	\$ (877)	\$ 95	\$ 11,647
Asset based lending	1,995	803	—	28	2,826
Factoring	3,548	1,231	(345)	10	4,444
Lease financing	1,695	1,043	(152)	97	2,683
Insurance premium finance	970	1,935	(789)	26	2,142
SBA/USDA	765	910	(117)	—	1,558
Other commercial finance	160	392	—	—	552
Commercial finance	15,883	11,993	(2,280)	256	25,852
Consumer credit products	1,107	(25)	—	—	1,082
Other consumer finance	4,889	(1,308)	(907)	740	3,414
Consumer finance	5,996	(1,333)	(907)	740	4,496
Tax services	1,650	19,596	—	74	21,320
Warehouse finance	269	65	—	—	334
Total National Lending	23,798	30,321	(3,187)	1,070	52,002
Community Banking					
Commercial real estate and operating	4,665	5,404	—	—	10,069
Consumer one-to-four family real estate and other	1,031	1,319	—	—	2,350
Agricultural real estate and operating	682	252	—	—	934
Total Community Banking	6,378	6,975	—	—	13,353
Total	\$ 30,176	\$ 37,296	\$ (3,187)	\$ 1,070	\$ 65,355

Six Months Ended March 31, 2020

(Dollars in Thousands)	Beginning balance	Provision (recovery) for loan and lease losses	Charge-offs	Recoveries	Ending balance
Allowance for loan and lease losses:					
National Lending					
Term lending	\$ 5,533	\$ 9,081	\$ (3,172)	\$ 205	\$ 11,647
Asset based lending	2,437	342	—	47	2,826
Factoring	3,261	1,489	(735)	429	4,444
Lease financing	1,275	1,546	(367)	229	2,683
Insurance premium finance	1,024	2,076	(1,074)	116	2,142
SBA/USDA	383	1,292	(117)	—	1,558
Other commercial finance	683	(131)	—	—	552
Commercial finance	14,596	15,695	(5,465)	1,026	25,852
Consumer credit products	1,044	38	—	—	1,082
Other consumer finance	5,118	(833)	(1,640)	769	3,414
Consumer finance	6,162	(795)	(1,640)	769	4,496
Tax services	—	20,507	—	813	21,320
Warehouse finance	263	71	—	—	334
Total National Lending	21,021	35,478	(7,105)	2,608	52,002
Community Banking					
Commercial real estate and operating	6,208	3,861	—	—	10,069
Consumer one-to-four family real estate and other	1,053	1,297	—	—	2,350
Agricultural real estate and operating	867	67	—	—	934
Total Community Banking	8,128	5,225	—	—	13,353
Total	\$ 29,149	\$ 40,703	\$ (7,105)	\$ 2,608	\$ 65,355

The following table provide additional disclosures previously required by ASC Topic 310 related to the Company's September 30, 2020 balances.

(Dollars in Thousands)	Allowance			Loans and Leases		
	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Total	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Total
Recorded Investment						
National Lending						
Term lending	\$ 3,155	\$ 12,056	\$ 15,211	\$ 26,085	\$ 779,238	\$ 805,323
Asset based lending	355	1,051	1,406	5,317	177,102	182,419
Factoring	274	2,753	3,027	5,071	276,102	281,173
Lease financing	1,194	5,829	7,023	4,697	276,387	281,084
Insurance premium finance	—	2,129	2,129	—	337,940	337,940
SBA/USDA	—	940	940	1,436	316,951	318,387
Other commercial finance	—	182	182	—	101,658	101,658
Commercial finance	4,978	24,940	29,918	42,606	2,265,378	2,307,984
Consumer credit products	—	845	845	—	89,809	89,809
Other consumer finance	—	2,821	2,821	1,987	132,355	134,342
Consumer finance	—	3,666	3,666	1,987	222,164	224,151
Tax services	—	2	2	—	3,066	3,066
Warehouse finance	—	294	294	—	293,375	293,375
Total National Lending	4,978	28,902	33,880	44,593	2,783,983	2,828,576
Community Banking						
Commercial real estate and operating	141	21,726	21,867	160	457,211	457,371
Consumer one-to-four family real estate and other	—	298	298	104	16,382	16,486
Agricultural real estate and operating	—	143	143	6,421	5,286	11,707
Total Community Banking	141	22,167	22,308	6,685	478,879	485,564
Total	\$ 5,119	\$ 51,069	\$ 56,188	\$ 51,278	\$ 3,262,862	\$ 3,314,140

Information on impaired loans and leases, all of which are deemed to be collateral dependent and are evaluated individually for the ACL was as follows:

(Dollars in Thousands)	March 31, 2021
National Lending	
Term lending	\$ 13,794
Asset based lending	373
Factoring	35
Lease financing	2,389
SBA/USDA	600
Commercial finance	17,191
Consumer credit products	2,097
Consumer finance	2,097
Total National Lending	19,288
Community Banking	
Commercial real estate and operating	17,896
Consumer one-to-four family real estate and other	170
Agricultural real estate and operating	4,658
Total Community Banking	22,724
Total	\$ 42,012

Information on impaired loans and leases as of September 30, 2020 was as follows:

(Dollars in Thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans and leases without a specific valuation allowance			
National Lending			
Term lending	\$ 17,349	\$ 18,823	\$ —
Asset based lending	3,914	3,914	—
Factoring	3,892	4,967	—
Lease financing	1,797	1,805	—
SBA/USDA	1,436	2,263	—
Commercial finance	28,388	31,772	—
Other consumer finance	1,987	2,104	—
Consumer finance	1,987	2,104	—
Total National Lending	30,375	33,876	—
Community Banking			
Consumer one-to-four family real estate and other	104	104	—
Agricultural real estate and operating	6,421	6,421	—
Total Community Banking	6,525	6,525	—
Total	\$ 36,900	\$ 40,401	\$ —
Loans and leases with a specific valuation allowance			
National Lending			
Term lending	\$ 8,736	\$ 8,736	\$ 3,155
Asset based lending	1,403	1,403	355
Factoring	1,179	1,191	274
Lease financing	2,900	2,900	1,194
Commercial finance	14,218	14,230	4,978
Total National Lending	14,218	14,230	4,978
Community Banking			
Commercial real estate and operating	160	160	141
Total Community Banking Loans	160	160	141
Total	\$ 14,378	\$ 14,390	\$ 5,119

In response to the ongoing COVID-19 pandemic, the Company allowed modifications, such as payment deferrals and temporary forbearances, to credit-worthy borrowers who are experiencing temporary hardship due to the effects of COVID-19. Accordingly, if all payments were less than 30 days past due prior to the onset of the pandemic effects, the loan or lease will not be reported as past due during the deferral or forbearance period. As of March 31, 2021, \$66.5 million of loan and lease balances that were granted deferral payments by the Company were still in their deferment period due to performing borrowers experiencing temporary hardship from COVID-19. These modifications consisted solely of payment deferrals ranging from 30 days to six months. These modifications are in line with applicable regulatory guidelines and, therefore, they are not reported as troubled debt restructurings. Other than the loan modifications that are on nonaccrual status, the Company is accruing and recognizing interest income on these modifications during the payment deferral period. The Company continues to regularly assess the collectability of the income on these active deferral relationships and considers adjustments to the accruing status on an individual case basis.

The Company recognizes that concentrations of credit may naturally occur and may take the form of a large volume of related loans and leases to an individual, a specific industry, or a geographic location. Credit concentration is a direct, indirect, or contingent obligation that has a common bond where the aggregate exposure equals or exceeds a certain percentage of the Company's Tier 1 Capital plus the allowable Allowance for Credit Losses.

Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the Bank's primary regulator, the Office of the Comptroller of the Currency (the "OCC"), to be of lesser quality as "substandard," "doubtful" or "loss."

The Company has various portfolios of consumer finance and tax services loans that present unique risks. Due to the unique risks associated with these portfolios, the Company monitors other credit quality indicators in their evaluation of the appropriateness of the allowance for credit losses on these portfolios, and as such, these loans are not included in the asset classification table below. The outstanding balances of consumer finance loans and tax services loans were \$235.7 million and \$225.9 million at March 31, 2021, respectively, and \$224.2 million and \$3.1 million at September 30, 2020, respectively. The amortized cost basis of loans and leases by asset classification and year of origination was as follows:

(Dollars in Thousands) As of March 31, 2021	Amortized Cost Basis						Revolving Loans and Leases	Total
	Term Loans and Leases by Origination Year							
	2021	2020	2019	2018	2017	Prior		
Term lending								
Pass	\$ 200,824	\$ 392,195	\$ 123,457	\$ 67,408	\$ 5,541	\$ 19,373	\$ —	\$ 808,798
Watch	1,807	12,959	8,322	682	564	1,564	—	25,898
Special Mention	—	6,292	5,694	1,377	42	7,871	—	21,276
Substandard	—	4,745	23,344	4,520	142	770	—	33,521
Doubtful	58	919	601	343	—	—	—	1,921
Total	202,689	417,110	161,418	74,330	6,289	29,578	—	891,414
Asset based lending								
Pass	—	—	—	—	—	—	166,247	166,247
Watch	—	—	—	—	—	—	61,887	61,887
Special Mention	—	—	—	—	—	—	16,854	16,854
Substandard	—	—	—	—	—	—	3,747	3,747
Total	—	—	—	—	—	—	248,735	248,735
Factoring								
Pass	—	—	—	—	—	—	233,225	233,225
Watch	—	—	—	—	—	—	20,262	20,262
Special Mention	—	—	—	—	—	—	16,220	16,220
Substandard	—	—	—	—	—	—	7,905	7,905
Total	—	—	—	—	—	—	277,612	277,612
Lease financing								
Pass	77,907	133,720	44,897	16,476	7,843	1,008	—	281,851
Watch	4,750	12,832	325	478	341	438	—	19,164
Special Mention	125	1,753	183	223	44	—	—	2,328
Substandard	—	304	3,241	887	3	—	—	4,435
Doubtful	—	118	273	—	—	—	—	391
Total	82,782	148,727	48,919	18,064	8,231	1,446	—	308,169
Insurance premium finance								
Pass	292,948	50,092	23	—	—	—	—	343,063
Watch	35	301	—	—	—	—	—	336
Special Mention	1,236	107	—	—	—	—	—	1,343
Substandard	—	33	—	—	—	—	—	33
Doubtful	—	66	—	—	—	—	—	66
Total	294,219	50,599	23	—	—	—	—	344,841
SBA/USDA								
Pass	97,498	155,760	24,689	22,832	9,093	7,384	—	317,256
Watch	—	6,782	643	449	1,379	952	—	10,205
Special Mention	—	—	—	1,814	—	69	—	1,883

Substandard	—	—	—	1,203	698	672	—	2,573
Total	97,498	162,542	25,332	26,298	11,170	9,077	—	331,917
Other commercial finance								
Pass	—	20,603	9,259	6,305	3,801	60,162	—	100,130
Watch	642	—	—	—	857	1,327	—	2,826
Substandard	—	—	—	278	—	—	—	278
Total	642	20,603	9,259	6,583	4,658	61,489	—	103,234
Warehouse finance								
Pass	—	—	—	—	—	—	332,456	332,456
Total	—	—	—	—	—	—	332,456	332,456
Total National Lending								
Pass	669,178	752,369	202,325	113,022	26,278	87,926	731,928	2,583,026
Watch	7,233	32,873	9,291	1,608	3,142	4,282	82,149	140,578
Special Mention	1,361	8,153	5,876	3,414	86	7,940	33,074	59,904
Substandard	—	5,083	26,585	6,888	842	1,442	11,652	52,492
Doubtful	58	1,103	874	343	—	—	—	2,378
Total	677,830	799,581	244,951	125,275	30,348	101,590	858,803	2,838,378
Commercial real estate and operating								
Pass	—	13,109	105,549	80,399	33,003	533	—	232,593
Watch	—	926	4,182	52,490	20,496	6,013	—	84,107
Special Mention	—	—	—	—	—	684	—	684
Substandard	—	300	700	16,897	—	306	—	18,203
Total	—	14,335	110,431	149,786	53,499	7,536	—	335,587
Consumer 1-4 family real estate and other								
Pass	—	—	159	875	374	2,869	—	4,277
Substandard	—	—	110	—	41	139	—	290
Total	—	—	269	875	415	3,008	—	4,567
Agricultural real estate and other								
Pass	—	—	85	108	—	2,586	—	2,779
Substandard	—	3,278	—	1,263	—	591	—	5,132
Total	—	3,278	85	1,371	—	3,177	—	7,911
Total Community Bank								
Pass	—	13,109	105,793	81,382	33,377	5,988	—	239,649
Watch	—	926	4,182	52,490	20,496	6,013	—	84,107
Special Mention	—	—	—	—	—	684	—	684
Substandard	—	3,578	810	18,160	41	1,036	—	23,625
Total	—	17,613	110,785	152,032	53,914	13,721	—	348,065
Total Loans and Leases								
Pass	669,178	765,478	308,118	194,404	59,655	93,914	731,928	2,822,675
Watch	7,233	33,799	13,473	54,098	23,638	10,295	82,149	224,685
Special Mention	1,361	8,153	5,876	3,414	86	8,624	33,074	60,588
Substandard	—	8,661	27,395	25,048	883	2,478	11,652	76,117
Doubtful	58	1,103	874	343	—	—	—	2,378
Total	\$ 677,830	\$ 817,194	\$ 355,736	\$ 277,307	\$ 84,262	\$ 115,311	\$ 858,803	\$ 3,186,443

The recorded investment of loans and leases by asset classification was as follows:

Asset Classification	Pass	Watch	Special Mention	Substandard	Doubtful	Total
As of September 30, 2020	(Dollars in Thousands)					
National Lending						
Term lending	\$ 725,101	\$ 29,637	\$ 24,501	\$ 21,249	\$ 4,835	\$ 805,323
Asset based lending	102,013	62,512	12,577	5,317	—	182,419
Factoring	217,245	45,200	13,657	5,071	—	281,173
Lease financing	264,700	8,879	2,808	4,148	549	281,084
Insurance premium finance	336,364	284	222	701	369	337,940
SBA/USDA	308,549	8,328	74	1,436	—	318,387
Other commercial finance	100,727	931	—	—	—	101,658
Commercial finance	2,054,699	155,771	53,839	37,922	5,753	2,307,984
Warehouse finance	293,375	—	—	—	—	293,375
Total National Lending	2,348,074	155,771	53,839	37,922	5,753	2,601,359
Community Banking						
Commercial real estate and operating	336,236	98,295	4,049	18,211	580	457,371
Consumer one-to-four family real estate and other	15,648	41	609	188	—	16,486
Agricultural real estate and operating	1,526	—	4,930	5,251	—	11,707
Total Community Banking	353,410	98,336	9,588	23,650	580	485,564
Total loans and leases	\$ 2,701,484	\$ 254,107	\$ 63,427	\$ 61,572	\$ 6,333	\$ 3,086,923

Past due loans and leases were as follows:

(Dollars in Thousands)	Accruing and Nonaccruing Loans and Leases					Nonperforming Loans and Leases			
	30-59 Days Past Due	60-89 Days Past Due	> 89 Days Past Due	Total Past Due	Current	Total Loans and Leases Receivable	> 89 Days Past Due and Accruing	Non-accrual balance	Total
As of March 31, 2021									
Loans held for sale	\$ —	\$ —	\$ —	\$ —	\$ 67,635	\$ 67,635	\$ —	\$ —	\$ —
National Lending									
Term lending	22,074	7,628	2,592	32,294	859,120	891,414	353	14,665	15,018
Asset based lending	13	—	—	13	248,722	248,735	—	382	382
Factoring	—	—	—	—	277,612	277,612	—	35	35
Lease financing	10,216	662	3,882	14,760	293,409	308,169	2,043	2,623	4,666
Insurance premium finance	1,290	440	2,414	4,144	340,697	344,841	2,414	—	2,414
SBA/USDA	—	—	600	600	331,317	331,917	—	600	600
Other commercial finance	1,082	—	—	1,082	102,152	103,234	—	—	—
Commercial finance	34,675	8,730	9,488	52,893	2,453,029	2,505,922	4,810	18,305	23,115
Consumer credit products	1,737	3,898	2,019	7,654	97,188	104,842	243	—	243
Other consumer finance	296	264	275	835	129,987	130,822	274	—	274
Consumer finance	2,033	4,162	2,294	8,489	227,175	235,664	517	—	517
Tax services	507	—	—	507	225,414	225,921	—	—	—
Warehouse finance	—	—	—	—	332,456	332,456	—	—	—
Total National Lending	37,215	12,892	11,782	61,889	3,238,074	3,299,963	5,327	18,305	23,632
Community Banking									
Commercial real estate and operating	12	—	—	12	335,575	335,587	—	17,896	17,896
Consumer one-to-four family real estate and other	—	—	49	49	4,518	4,567	—	159	159
Agricultural real estate and operating	—	—	1,769	1,769	6,142	7,911	—	1,769	1,769
Total Community Banking	12	—	1,818	1,830	346,235	348,065	—	19,824	19,824
Total loans and leases held for investment	37,227	12,892	13,600	63,719	3,584,309	3,648,028	5,327	38,129	43,456
Total loans and leases	<u>\$ 37,227</u>	<u>\$ 12,892</u>	<u>\$ 13,600</u>	<u>\$ 63,719</u>	<u>\$ 3,651,944</u>	<u>\$ 3,715,663</u>	<u>\$ 5,327</u>	<u>\$ 38,129</u>	<u>\$ 43,456</u>

(Dollars in Thousands) As of September 30, 2020	Accruing and Nonaccruing Loans and Leases					Nonperforming Loans and Leases			
	30-59 Days Past Due	60-89 Days Past Due	> 89 Days Past Due	Total Past Due	Current	Total Loans and Leases Receivable	> 89 Days Past Due and Accruing	Non-accrual balance	Total
Loans held for sale	\$ —	\$ —	\$ —	\$ —	\$ 183,577	\$ 183,577	\$ —	\$ —	\$ —
National Lending									
Term lending	11,900	3,851	6,390	22,141	783,182	805,323	266	16,274	16,540
Asset based lending	17	—	—	17	182,402	182,419	—	—	—
Factoring	—	—	—	—	281,173	281,173	—	1,096	1,096
Lease financing	194	9,746	6,882	16,822	264,262	281,084	4,344	3,583	7,927
Insurance premium finance	1,227	748	2,364	4,339	333,601	337,940	2,364	—	2,364
SBA/USDA	—	—	1,027	1,027	317,360	318,387	427	600	1,027
Other commercial finance	—	—	—	—	101,658	101,658	—	—	—
Commercial finance	13,338	14,345	16,663	44,346	2,263,638	2,307,984	7,401	21,553	28,954
Consumer credit products	377	358	499	1,233	88,576	89,809	499	—	499
Other consumer finance	600	536	373	1,509	132,833	134,342	373	—	373
Consumer finance	977	894	872	2,743	221,408	224,151	872	—	872
Tax services	—	—	1,743	1,743	1,323	3,066	1,743	—	1,743
Warehouse finance	—	—	—	—	293,375	293,375	—	—	—
Total National Lending	14,315	15,239	19,278	48,832	2,779,744	2,828,576	10,016	21,553	31,569
Community Banking									
Commercial real estate and operating	—	—	630	630	456,741	457,371	50	580	630
Consumer one-to-four family real estate and other	905	114	50	1,069	15,417	16,486	—	50	50
Agricultural real estate and operating	—	—	1,769	1,769	9,938	11,707	—	1,769	1,769
Total Community Banking	905	114	2,449	3,468	482,096	485,564	50	2,399	2,449
Total loans and leases held for investment	15,220	15,353	21,727	52,300	3,261,840	3,314,140	10,066	23,952	34,018
Total loans and leases	\$ 15,220	\$ 15,353	\$ 21,727	\$ 52,300	\$ 3,445,417	\$ 3,497,717	\$ 10,066	\$ 23,952	\$ 34,018

Nonaccrual loans and leases by year of origination were as follows:

(Dollars in Thousands)	Amortized Cost Basis							Revolving Loans and Leases	Total	Nonaccrual With No ACL
	Term Loans and Leases by Origination Year									
	2021	2020	2019	2018	2017	Prior				
March 31, 2021										
National Lending										
Term lending	\$ 72	\$ 2,746	\$ 8,834	\$ 2,426	\$ 23	\$ 564	\$ —	\$ 14,665	\$ 7,942	
Asset based lending	—	—	—	—	—	—	382	382	9	
Factoring	—	—	—	—	—	—	35	35	—	
Lease financing	—	358	1,906	359	—	—	—	2,623	1,118	
SBA/USDA	—	—	—	—	600	—	—	600	600	
Commercial finance	72	3,104	10,740	2,785	623	564	417	18,305	9,669	
Total National Lending	72	3,104	10,740	2,785	623	564	417	18,305	9,669	
Community Banking										
Commercial real estate and operating	—	300	700	16,896	—	—	—	17,896	—	
Consumer one-to-four family real estate and other	—	—	110	—	41	8	—	159	159	
Agricultural real estate and operating	—	—	—	1,263	—	506	—	1,769	1,769	
Total Community Banking	—	300	810	18,159	41	514	—	19,824	1,928	
Total nonaccrual loans and leases	\$ 72	\$ 3,404	\$ 11,550	\$ 20,944	\$ 664	\$ 1,078	\$ 417	\$ 38,129	\$ 11,597	

Loans and leases that are 90 days or more delinquent and accruing by year of origination were as follows:

(Dollars in Thousands)	Amortized Cost Basis							Revolving Loans and Leases	Total
	Term Loans and Leases by Origination Year								
	2021	2020	2019	2018	2017	Prior			
March 31, 2021									
National Lending									
Term lending	\$ —	\$ —	\$ —	\$ 220	\$ 112	\$ 21	\$ —	\$ 353	
Lease financing	1,247	323	139	301	33	—	—	2,043	
Insurance premium finance	1,313	1,101	—	—	—	—	—	2,414	
Commercial finance	2,560	1,424	139	521	145	21	—	4,810	
Other consumer finance	—	—	—	—	—	274	—	274	
Consumer finance ⁽¹⁾	—	—	—	—	—	274	—	274	
Total National Lending	2,560	1,424	139	521	145	295	—	5,084	
Total 90 days or more delinquent and accruing	\$ 2,560	\$ 1,424	\$ 139	\$ 521	\$ 145	\$ 295	\$ —	\$ 5,084	

⁽¹⁾ Consumer credit products are not included in the table as they are evaluated under a separate methodology for allowance for credit loss purposes that considers the overall Program structure. Refer to the Company's most recent audited financial statements for additional information on these Programs.

Certain loans and leases 90 days or more past due as to interest or principal continue to accrue because they are (1) well-secured and in the process of collection or (2) one-to-four family real estate loans or consumer loans exempt under regulatory rules from being classified as non-accrual until later delinquency, usually 120 days past due.

When analysis of borrower or lessee operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan or lease is evaluated for impairment. Often, this is associated with a delay or shortfall in scheduled payments, as described above.

The following table provides the average recorded investment in non-accrual loans and leases:

(Dollars in Thousands)	Average Recorded Investment	
	Three Months Ended March 31, 2021	Six Months Ended March 31, 2021
National Lending		
Term lending	\$ 12,729	\$ 13,802
Asset based lending	572	823
Factoring	44	490
Lease financing	2,990	3,273
SBA/USDA	600	600
Commercial finance	16,935	18,988
Total National Lending	16,935	18,988
Community Banking		
Commercial real estate and operating	18,269	12,404
Consumer one-to-four family real estate and other	161	143
Agricultural real estate and operating	1,769	1,769
Total Community Banking	20,199	14,316
Total loans and leases	\$ 37,134	\$ 33,304

The recognized interest income on the Company's nonaccrual loans and leases for the three and six months ended March 31, 2021 was not significant.

The following table provides the average recorded investment in impaired loans and leases:

(Dollars in Thousands)	Three Months Ended March 31, 2020		Six Months Ended March 31, 2020	
	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
National Lending				
Term lending	\$ 26,454	\$ 46	\$ 22,995	\$ 120
Asset based lending	350	—	389	—
Factoring	4,596	—	4,223	—
Lease financing	2,154	12	2,920	12
SBA/USDA	3,640	—	3,714	—
Commercial finance	37,194	58	34,241	132
Other consumer finance	1,775	39	1,663	73
Consumer finance	1,775	39	1,663	73
Total National Lending	38,970	97	35,904	205
Community Banking				
Commercial real estate and operating	682	12	564	25
Consumer one-to-four family real estate and other	82	1	85	9
Agricultural real estate and operating	2,674	(186)	2,798	(144)
Total Community Banking	3,438	(173)	3,447	(110)
Total loans and leases	\$ 42,408	\$ (76)	\$ 39,351	\$ 95

The Company's troubled debt restructurings ("TDRs") typically involve forgiving a portion of interest or principal on existing loans, making loans at a rate materially less than current market rates, or extending the term of the loan. There were \$2.1 million of national lending loans that were modified in a TDR during the three months ended March 31, 2021, all of which were modified to extend the term of the loan, and no community banking loans. There were \$3.7 million of national lending loans and leases that were modified in a TDR during the three months ended March 31, 2020 and no community banking loans.

During the six months ended March 31, 2021, there were \$2.2 million of national lending loans and no community bank loans that were modified in a TDR, all of which were modified to extend the term of the loan. There were \$4.1 million of national lending loans and leases and \$0.6 million of community banking loans that were modified in a TDR during the six months ended March 31, 2020.

During the six months ended March 31, 2021, the Company had \$0.1 million of national lending loans and no community banking loans that were modified in a TDR within the previous 12 months and for which there was a payment default. During the six months ended March 31, 2020, the Company had \$3.2 million of community banking loans and \$2.9 million national lending loans that were modified in a TDR within the previous 12 months and for which there was a payment default. TDR net charge-offs and the impact of TDRs on the Company's allowance for credit losses were insignificant during the quarters ended March 31, 2021 and March 31, 2020.

NOTE 7. EARNINGS PER COMMON SHARE ("EPS")

The Company has granted restricted share awards with dividend rights that are considered to be participating securities. Accordingly, a portion of the Company's earnings is allocated to those participating securities in the earnings per share calculation under the two-class method. Basic earnings per common share is computed using the two-class method by dividing income available to common stockholders after the allocation of dividends and undistributed earnings to the participating securities by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated using the more dilutive of the treasury stock method or the two-class method. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, and is computed after giving consideration to the weighted average dilutive effect of the Company's stock options, performance share units, and nonvested restricted stock, where applicable. Diluted EPS under the two-class method also considers the allocation of earnings to the participating securities. Antidilutive securities are disregarded in earnings per share calculations. Diluted EPS shown below reflects the two-class method, as diluted EPS under the two-class method was more dilutive than under the treasury stock method.

A reconciliation of net income and common stock share amounts used in the computation of basic and diluted earnings per share is presented below.

(Dollars in Thousands, Except Share and Per Share Data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Basic income per common share:				
Net income attributable to Meta Financial Group, Inc.	\$ 59,066	\$ 52,304	\$ 87,103	\$ 73,372
Dividends and undistributed earnings allocated to participating securities	(1,113)	(1,215)	(1,683)	(1,652)
Basic net earnings available to common stockholders	57,953	51,089	85,420	71,720
Undistributed earnings allocated to nonvested restricted stockholders	1,083	1,173	1,620	1,570
Reallocation of undistributed earnings to nonvested restricted stockholders	(1,082)	(1,172)	(1,619)	(1,569)
Diluted net earnings available to common stockholders	\$ 57,954	\$ 51,090	\$ 85,421	\$ 71,721
Total weighted-average basic common shares outstanding				
	31,520,505	35,114,053	32,158,994	35,865,443
Effect of dilutive securities⁽¹⁾				
Stock options	—	21,497	—	21,634
Performance share units	14,517	—	16,490	—
Total effect of dilutive securities	14,517	21,497	16,490	21,634
Total weighted-average diluted common shares outstanding	31,535,022	35,135,550	32,175,484	35,887,077
Net earnings per common share:				
Basic earnings per common share	\$ 1.84	\$ 1.45	\$ 2.66	\$ 2.00
Diluted earnings per common share ⁽²⁾	\$ 1.84	\$ 1.45	\$ 2.65	\$ 2.00

⁽¹⁾ Represents the effect of the assumed exercise of stock options and vesting of performance share units and restricted stock, as applicable, utilizing the treasury stock method.

⁽²⁾ Excluded from the computation of diluted earnings per share for the three months ended March 31, 2021 and 2020, respectively, were 605,459 and 834,746 weighted average shares of nonvested restricted stock because their inclusion would be anti-dilutive. Excluded from the computation of diluted earnings per share for the six months ended March 31, 2021 and 2020, respectively, were 633,553 and 826,262 weighted average shares of nonvested restricted stock because their inclusion would be anti-dilutive.

NOTE 8. RENTAL EQUIPMENT, NET

Rental equipment consists of the following:

(Dollars in Thousands)	March 31, 2021	September 30, 2020
Computers and IT networking equipment	\$ 16,313	\$ 15,926
Motor vehicles and other	56,012	52,913
Office furniture and equipment	73,889	74,197
Solar panels and equipment	128,430	118,808
Total	274,644	261,844
Accumulated depreciation	(65,013)	(57,601)
Unamortized initial direct costs	1,766	1,721
Net book value	\$ 211,397	\$ 205,964

Undiscounted future minimum lease payments expected to be received for operating leases were as follows:

(Dollars in Thousands)	March 31, 2021
Remaining in 2021	\$ 17,689
2022	30,532
2023	26,189
2024	18,948
2025	13,843
Thereafter	20,269
Total undiscounted future minimum lease payments receivable for operating leases	\$ 127,470

NOTE 9. FORECLOSED REAL ESTATE AND REPOSSESSED ASSETS

The following table provides an analysis of changes in foreclosed real estate and repossessed assets:

(Dollars in Thousands)	Six Months Ended March 31,	
	2021	2020
Balance, beginning of period	\$ 9,957	\$ 29,494
Additions	9	5,983
Reductions:		
Write-downs	466	104
Sales	8,021	23,085
(Gain) loss on sale	(4)	5,039
Total reductions	8,483	28,228
Balance, ending of period	\$ 1,483	\$ 7,249

At March 31, 2021 and September 30, 2020, the Company had established a valuation allowance of \$1.0 million and \$0.5 million for repossessed assets, respectively. As of March 31, 2021 and September 30, 2020, the Company had no loans or leases in the process of foreclosure.

During the fiscal year ended September 30, 2020, the Company sold \$28.1 million of other real estate owned ("OREO"), which consisted of assets related to a Community Bank agriculture real estate customer. The sale consisted of 30-plus parcels of land and the Company recognized a \$5.0 million loss that was included in the "Gain (loss) on sale of other" line on the Condensed Consolidated Statements of Operations. The Company also recognized \$1.1 million in deferred rental income and \$0.2 million in OREO expenses related to these foreclosed properties.

NOTE 10. GOODWILL AND INTANGIBLE ASSETS

The Company held a total of \$309.5 million of goodwill at March 31, 2021. The recorded goodwill is a result of multiple business combinations that have been consummated since fiscal year 2015, with the most recent being the merger with Crestmark pursuant to the Crestmark Acquisition that closed on August 1, 2018. Goodwill is assessed for impairment at least annually or more often if conditions indicate a possible impairment. The assessment is done at a reporting unit level, which is one level below the operating segments. There have been no changes to the carrying amount of goodwill during the six months ended March 31, 2021.

The changes in the carrying amount of the Company's intangible assets for the six months ended March 31, 2021 and 2020 were as follows:

(Dollars in Thousands)	Trademark ⁽¹⁾	Non-Compete ⁽²⁾	Customer Relationships ⁽³⁾	All Others ⁽⁴⁾	Total
Balance as of September 30, 2020	\$ 10,901	\$ 422	\$ 24,333	\$ 6,036	\$ 41,692
Acquisitions during the period	—	—	—	5	5
Amortization during the period	(544)	(191)	(3,716)	(319)	(4,770)
Write-offs during the period	—	—	—	(24)	(24)
Balance as of March 31, 2021	\$ 10,357	\$ 231	\$ 20,617	\$ 5,698	\$ 36,903
Gross carrying amount	\$ 14,624	\$ 2,481	\$ 82,088	\$ 10,123	\$ 109,316
Accumulated amortization	(4,267)	(2,250)	(51,223)	(4,207)	(61,947)
Accumulated impairment	—	—	(10,248)	(218)	(10,466)
Balance as of March 31, 2021	\$ 10,357	\$ 231	\$ 20,617	\$ 5,698	\$ 36,903

⁽¹⁾ Book amortization period of 5-15 years. Amortized using the straight line and accelerated methods.

⁽²⁾ Book amortization period of 3-5 years. Amortized using the straight line method.

⁽³⁾ Book amortization period of 10-30 years. Amortized using the accelerated method.

⁽⁴⁾ Book amortization period of 3-20 years. Amortized using the straight line method.

(Dollars in Thousands)	Trademark ⁽¹⁾	Non-Compete ⁽²⁾	Customer Relationships ⁽³⁾	All Others ⁽⁴⁾	Total
Balance as of September 30, 2019	\$ 11,959	\$ 827	\$ 33,207	\$ 6,817	\$ 52,810
Acquisitions during the period	—	—	—	33	33
Amortization during the period	(528)	(212)	(4,997)	(340)	(6,077)
Balance as of March 31, 2020	\$ 11,431	\$ 615	\$ 28,210	\$ 6,510	\$ 46,766
Gross carrying amount	\$ 14,624	\$ 2,480	\$ 82,088	\$ 10,736	\$ 109,928
Accumulated amortization	(3,193)	(1,865)	(43,630)	(3,567)	(52,255)
Accumulated impairment	—	—	(10,248)	(659)	(10,907)
Balance as of March 31, 2020	\$ 11,431	\$ 615	\$ 28,210	\$ 6,510	\$ 46,766

⁽¹⁾ Book amortization period of 5-15 years. Amortized using the straight line and accelerated methods.

⁽²⁾ Book amortization period of 3-5 years. Amortized using the straight line method.

⁽³⁾ Book amortization period of 10-30 years. Amortized using the accelerated method.

⁽⁴⁾ Book amortization period of 3-20 years. Amortized using the straight line method.

The estimated amortization expense of intangible assets assumes no activities, such as acquisitions, which would result in additional amortizable intangible assets. Estimated amortization expense of intangible assets in the remaining six months of fiscal 2021 and subsequent fiscal years was as follows:

(Dollars in Thousands)	March 31, 2021
Remaining in 2021	\$ 3,775
2022	6,419
2023	5,101
2024	4,383
2025	3,827
2026	3,253
Thereafter	10,145
Total anticipated intangible amortization	\$ 36,903

The Company tests intangible assets for impairment at least annually or more often if conditions indicate a possible impairment. There were no impairments to intangible assets during the six months ended March 31, 2021 and 2020.

NOTE 11. OPERATING LEASE RIGHT-OF-USE ASSETS AND LIABILITIES

Operating lease ROU assets, included in other assets, were \$36.1 million at March 31, 2021.

Operating lease liabilities, included in accrued expenses and other liabilities, were \$38.1 million at March 31, 2021.

Undiscounted future minimum operating lease payments and a reconciliation to the amount recorded as operating lease liabilities were as follows:

(Dollars in Thousands)	March 31, 2021
Remaining in 2021	\$ 2,219
2022	4,596
2023	3,999
2024	4,152
2025	4,027
Thereafter	24,926
Total undiscounted future minimum lease payments	43,919
Discount	(5,817)
Total operating lease liabilities	\$ 38,102

The weighted-average discount rate and remaining lease term for operating leases were as follows:

	March 31, 2021
Weighted-average discount rate	2.31 %
Weighted-average remaining lease term (years)	11.23

The components of total lease costs for operating leases were as follows:

(Dollars in Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Lease expense	\$ 991	\$ 869	\$ 1,945	\$ 1,613
Short-term and variable lease cost	69	156	132	334
ROU asset impairment	—	—	224	—
Sublease income	(177)	(175)	(285)	(364)
Total lease cost for operating leases	\$ 883	\$ 850	\$ 2,016	\$ 1,583

NOTE 12. STOCKHOLDERS' EQUITY
Repurchase of Common Stock

The Company's Board of Directors authorized the November 20, 2019 share repurchase program to repurchase up to 7,500,000 shares of the Company's outstanding common stock. This authorization is effective from November 21, 2019 through December 31, 2022. During the six months ended March 31, 2021, and 2020, the Company repurchased 2,683,579 and 3,497,565 shares, respectively, as part of the share repurchase program.

Under the repurchase program, repurchased shares were retired and designated as authorized but unissued shares. The Company accounts for repurchased shares using the par value method under which the repurchase price is charged to paid-in capital up to the amount of the original proceeds of those shares. When the repurchase price is greater than the original issue proceeds, the excess is charged to retained earnings. As of March 31, 2021, the remaining number of shares available for repurchase under this program was 1,550,173 shares of common stock.

For the six months ended March 31, 2021, and 2020, the Company also repurchased 84,121 and 88,784 shares, or \$1.9 million and \$2.9 million of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock.

NOTE 13. STOCK COMPENSATION

The Company maintains the Meta Financial Group, Inc. 2002 Omnibus Incentive Plan, as amended and restated (the "2002 Omnibus Incentive Plan"), which, among other things, provides for the awarding of stock options, nonvested (restricted) shares, and performance share units ("PSUs") to certain officers and directors of the Company. Awards are granted by the Compensation Committee of the Board of Directors based on the performance of the award recipients or other relevant factors.

Compensation expense for share-based awards is recorded over the vesting period at the fair value of the award at the time of the grant. The exercise price of options or fair value of nonvested (restricted) shares and performance share units granted under the Company's incentive plan is equal to the fair market value of the underlying stock at the grant date, adjusted for dividends where applicable. The Company has elected, with the adoption of ASU 2016-09, to record forfeitures as they occur.

The following tables show the activity of nonvested (restricted) shares and PSUs granted, exercised, or forfeited under the 2002 Omnibus Incentive Plan for the six months ended March 31, 2021. There were no options granted, exercised or forfeited under this plan during the six months ended March 31, 2021.

(Dollars in Thousands, Except Per Share Data)	Number of Shares	Weighted Average Fair Value at Grant
Nonvested shares outstanding, September 30, 2020	790,083	\$ 30.03
Granted	189,187	30.78
Vested	(274,096)	30.22
Forfeited or expired	(98,399)	29.66
Nonvested shares outstanding, March 31, 2021	606,775	\$ 30.24

(Dollars in Thousands, Except Per Share Data)	Number of Units	Weighted Average Fair Value at Grant
Performance share units outstanding, September 30, 2020	—	\$ —
Granted ⁽¹⁾	60,984	34.03
Vested	—	—
Forfeited or expired	—	—
Performance share units outstanding, March 31, 2021	60,984	\$ 34.03

⁽¹⁾ The number of PSUs granted reflects the target number of PSUs able to be earned under a given award.

At March 31, 2021, stock-based compensation expense not yet recognized in income totaled \$8.9 million, which is expected to be recognized over a weighted average remaining period of 2.10 years.

NOTE 14. INCOME TAXES

The Company recorded an income tax expense of \$4.7 million for the six months ended March 31, 2021, resulting in an effective tax rate of 4.97%, compared to an income tax expense of \$6.3 million, or an effective tax rate of 7.66%, for the six months ended March 31, 2020. The Company's effective tax rate was lower than the U.S. statutory rate of 21% primarily because of the anticipated effect of investment tax credits during fiscal year 2019. The Company's effective tax rate in the future will depend in part on actual investment tax credits earned as part of its financing of solar energy projects.

The table below compares the income tax expense components for the periods presented.

(Dollars in Thousands)	Six Months Ended March 31,	
	2021	2020
Provision at statutory rate	\$ 19,271	\$ 16,730
Tax-exempt income	(486)	(591)
State income taxes	4,135	3,682
Interim period effective rate adjustment	(3,116)	(3,321)
Tax credit investments, net - federal	(15,464)	(9,536)
Research tax credit	(323)	(1,709)
IRC 162(m) nondeductible compensation	487	1,019
Other, net	161	23
Income tax expense (benefit)	\$ 4,665	\$ 6,297
Effective tax rate	4.97 %	7.66 %

NOTE 15. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments to extend credit that are not reflected in the accompanying Condensed Consolidated Financial Statements as described below.

At March 31, 2021 and September 30, 2020, unfunded loan commitments approximated \$1.28 billion and \$1.22 billion, respectively, excluding undisbursed portions of loans in process. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are canceled upon expiration of the commitment term as outlined in each individual contract.

The Company had no commitments to purchase securities at March 31, 2021 or September 30, 2020. The Company had no commitments to sell securities at March 31, 2021 or September 30, 2020.

The exposure to credit loss in the event of non-performance by other parties to financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The same credit policies and collateral requirements are used in making commitments and conditional obligations as are used for on-balance-sheet instruments.

Since certain commitments to make loans and to fund lines of credit expire without being used, the amount does not necessarily represent future cash commitments. In addition, commitments used to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract.

Legal Proceedings

The Bank was served, on October 14, 2016, with a lawsuit captioned Card Limited, LLC v. MetaBank dba Meta Payment Systems, Civil No. 2:16-cv-00980 in the United States District Court for the District of Utah. This action was initiated by a former prepaid program manager of the Bank, which was terminated by the Bank in fiscal year 2016. Card Limited alleges that, after all of the programs were wound down, there were two accounts with positive balances to which Card Limited is entitled. The Bank's position is that Card Limited is not entitled to the funds contained in said accounts. The total amount to which Card Limited claims it is entitled is \$4.0 million. The Court ruled in favor of MetaBank on cross motions for summary judgment and vacated the trial. Card Limited has appealed the decision, but thereafter agreed to settle this claim for a nominal amount. This payment has been made and the case has been dismissed.

On February 9, 2018, the Bank's AFS/IBEX division filed a lawsuit in the United States District Court for the Eastern District of New York captioned AFS/IBEX, a division of MetaBank v. Aegis Managing Agency Limited ("AMA"), Aegis Syndicate 1225 (together with AMA, the "Aegis defendants"), CRC Insurance Services, Inc. ("CRC"), and Transportation Underwriters, Inc. The suit was filed against commercial insurance underwriters and brokers that facilitated the issuance of commercial insurance policies to Red Hook Construction Group-II, LLC ("Red Hook"). The Bank's position is that both CRC and Transportation Underwriters represented to the Bank that, upon cancellation of the insurance policies prior to their stated terms, any unearned premiums would be refunded. The Bank then provided insurance premium financing to Red Hook, and Red Hook executed a written premium finance agreement pursuant to which Red Hook assigned its rights to any unearned premiums to the Bank. After the policies were cancelled, the Aegis defendants failed to return the unearned insurance premiums totaling just over \$1.6 million owed to the Bank under the insurance policies and the premium finance agreement. The Bank is seeking recovery of all amounts to which it is entitled at law or equity and intends to vigorously pursue its claims against the defendants. The Bank filed a Motion for Summary Judgment which was granted by the trial court, but is subject to appeal.

From time to time, the Company or its subsidiaries are subject to certain legal proceedings and claims in the ordinary course of business. Accruals have been recorded when the outcome is probable and can be reasonably estimated. While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company's financial position or its results of operations, legal proceedings are inherently uncertain and unfavorable resolution of some or all of these matters could, individually or in the aggregate, have a material adverse effect on the Company's and its subsidiaries' respective businesses, financial condition or results of operations.

NOTE 16. REVENUE FROM CONTRACTS WITH CUSTOMERS

Topic 606 applies to all contracts with customers unless such revenue is specifically addressed under existing guidance. The table below presents the Company's revenue by operating segment. For additional descriptions of the Company's operating segments, including additional financial information and the underlying management accounting process, see Note 17. Segment Reporting to the Condensed Consolidated Financial Statements.

(Dollars in Thousands)	Consumer		Commercial		Corporate Services/Other		Consolidated Company	
	2021	2020	2021	2020	2021	2020	2021	2020
Three Months Ended March 31,								
Net interest income ⁽¹⁾	\$ 25,085	\$ 16,162	\$ 42,404	\$ 37,026	\$ 6,361	\$ 14,549	\$ 73,850	\$ 67,737
Noninterest income:								
Refund transfer product fees	22,680	28,939	—	—	—	—	22,680	28,939
Tax advance product fees ⁽¹⁾	44,562	29,536	—	—	—	—	44,562	29,536
Payment card and deposit fees	29,875	23,156	—	—	—	—	29,875	23,156
Other bank and deposit fees	—	—	126	268	7	113	133	381
Rental income ⁽¹⁾	5	5	9,841	11,094	—	1	9,846	11,100
Net gain realized on investment securities ⁽¹⁾	—	—	—	—	6	—	6	—
Gain on divestitures ⁽¹⁾	—	—	—	—	—	19,275	—	19,275
Gain (loss) on sale of other ⁽¹⁾	—	(259)	1,624	2,579	509	5	2,133	2,325
Other income ⁽¹⁾	919	1,831	2,349	1,582	950	2,388	4,218	5,801
Total noninterest income	98,041	83,208	13,940	15,523	1,472	21,782	113,453	120,513
Revenue	\$ 123,126	\$ 99,370	\$ 56,344	\$ 52,549	\$ 7,833	\$ 36,331	\$ 187,303	\$ 188,250

⁽¹⁾ These revenues are not within the scope of Topic 606. Additional details are included in other footnotes to the accompanying financial statements. The scope of Topic 606 explicitly excludes net interest income as well as many other revenues for financial assets and liabilities, including loans, leases, and securities.

(Dollars in Thousands) Six Months Ended March 31,	Consumer		Commercial		Corporate Services/Other		Consolidated Company	
	2021	2020	2021	2020	2021	2020	2021	2020
Net interest income ⁽¹⁾	\$ 47,432	\$ 32,719	\$ 84,252	\$ 76,762	\$ 8,165	\$ 22,907	\$ 139,849	\$ 132,388
Noninterest income:								
Refund transfer product fees	23,327	29,131	—	—	—	—	23,327	29,131
Tax advance product fees ⁽¹⁾	46,522	31,812	—	—	—	—	46,522	31,812
Payment card and deposit fees	52,439	44,655	—	—	—	—	52,439	44,655
Other bank and deposit fees	—	—	360	546	10	322	370	868
Rental income ⁽¹⁾	10	9	19,721	22,128	—	1,314	19,731	23,451
Net gain realized on investment securities ⁽¹⁾	—	—	—	—	6	—	6	—
Gain on divestitures ⁽¹⁾	—	—	—	—	—	19,275	—	19,275
Gain (loss) on sale of other ⁽¹⁾	—	(19)	4,216	4,917	765	(5,142)	4,981	(244)
Other income ⁽¹⁾	1,078	2,384	4,809	2,911	5,645	3,752	11,532	9,047
Total noninterest income	123,376	107,972	29,106	30,502	6,426	19,521	158,908	157,995
Revenue	\$ 170,808	\$ 140,691	\$ 113,358	\$ 107,264	\$ 14,591	\$ 42,428	\$ 298,757	\$ 290,383

⁽¹⁾ These revenues are not within the scope of Topic 606. Additional details are included in other footnotes to the accompanying financial statements. The scope of Topic 606 explicitly excludes net interest income as well as many other revenues for financial assets and liabilities, including loans, leases, and securities.

Following is a discussion of key revenues within the scope of Topic 606. The Company provides services to customers that have related performance obligations that must be completed to recognize revenue. Revenues are generally recognized immediately upon the completion of the service or over time as services are performed. Any services performed over time generally require that the Company renders services each period; therefore, the Company measures progress in completing these services based upon the passage of time. Revenue from contracts with customers did not generate significant contract assets and liabilities.

Refund Transfer Product Fees. Refund transfer fees are specific to the tax products offered by Refund Advantage and EPS. These fees are for products, services such as payment processing, and product referral commissions. Software partner fees paid and/or incurred are recorded on a net basis. The Company's obligation for product fees and commissions is satisfied at the time of the product delivery and obligation for payment processing is satisfied at the time of processing. The transaction price for such activity is based upon stand-alone fees within the terms and conditions. At March 31, 2021 and September 30, 2020, there were no receivables related to refund transfer fees, which reflect earned revenue with unconditional rights to payment for product fee income. All refund transfer fees are recorded within the Consumer reporting segment.

Card Fees. Card fees relate to MPS, Community Bank, Refund Advantage and EPS products. These fees are for products and services such as card activation, product support, processing, and servicing. The Company earns these fees based upon the underlying terms and conditions with each cardholder over the contract term. Agreements with the Company's cardholders are considered daily service contracts as they are not fixed in duration. The Company's obligation for card activation and product support fees is satisfied at the time of product delivery, while the obligation for processing and servicing is satisfied over the course of each month. The transaction price for such activity is based upon the stand-alone fees within the terms and conditions of the cardholder agreements. Card fee revenue also includes income from sponsorships, associations and networks, and interchange income. Sponsorship income relates to fees charged to the Company's ATM sponsorship partners, where the obligation is satisfied over the course of each month. Association and network income reflect incentives, performance bonuses and rebates with MasterCard and Visa. The obligation for such income is satisfied at the time when certain thresholds of transaction volume have been met. Interchange income is generated by cardholder activity, and therefore the Company's obligations are satisfied as activity occurs. The transaction price for such activity is based on underlying rates and activity thresholds within the terms and conditions of the applicable agreements. Card fee revenue also includes breakage revenue. Breakage represents the estimated amount that will not be redeemed by the holder of unregistered, unused prepaid cards for goods or services. Breakage revenue is recognized ratably over the expected customer usage period and is an estimate based on cardholder behavior and breakage rates. Breakage is also impacted by escheatment laws. Card fees are recorded within both the Consumer and Commercial reporting segments, the substantial majority of which is derived from the Company's payments divisions and reported in payments card and deposit fees. Card fees related to the Community Bank are reported within other bank and deposit fees.

Bank and Deposit Fees. Fees are earned on depository accounts for consumer and commercial customers and include fees for account services, overdraft services, safety deposit box rentals, and event-driven services (i.e. returned checks, ATM surcharge, card replacement, wire transfers, and stop pays). The Company's obligation for event-driven services is satisfied at the time of the event when the service is delivered, while its obligation for account services is satisfied over the course of each month. The Company's obligation for overdraft services is satisfied at the time of overdraft. The transaction price for such activity is based upon stand-alone fees within the terms and conditions of the deposit agreements. Bank and deposit fees are recorded within both the Consumer and Commercial reporting segments, the majority of which are derived from the Company's payments divisions. Bank and deposit fees related to the Community Bank are reported within other bank and deposit fees.

Principal vs Agent. The Consumer reporting segment includes principal/agent relationships. Within this segment, MPS relationships are recorded on a gross basis within the Condensed Consolidated Statements of Operations, as Meta is the principal in the contract, with the exception of association/network contracts and partner/processor contracts for prepaid cards, which are recorded on a net basis within the Condensed Consolidated Statements of Operations as Meta is the agent in these contracts. Also within this segment, Tax Service relationships are recorded on a gross basis within the Condensed Consolidated Statements of Operations, as Meta is the principal in the contract, with the exception of contracts with software providers and merchants, which are recorded on a net basis within the Condensed Consolidated Statements of Operations as Meta is the agent in these contracts.

NOTE 17. SEGMENT REPORTING

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose results are reviewed by the chief operating decision-maker. Operating segments are aggregated into reportable segments if certain criteria are met.

The Company reports its results of operations through the following three business segments: Consumer, Commercial, and Corporate Services/Other. The Meta Payment Systems and Tax Services divisions, as well as the Consumer Credit Products and ClearBalance business lines, are reported in the Consumer segment. The Crestmark and AFS divisions are reported in the Commercial segment. The Community Bank division, Warehouse Finance, and Student Loan lending portfolio are included in the Corporate Services/Other segment. The Corporate Services/Other segment also includes certain shared services as well as treasury related functions such as the investment portfolio, wholesale deposits and borrowings. The Company does not report indirect general and administrative expenses in the Consumer and Commercial segments. Beginning October 1, 2020, Warehouse Finance, formerly reported in the Consumer segment, is now included in the Corporate Services/Other segment. Prior periods have been reclassified to conform to the current presentation.

The Company adopted ASU 2018-02 as of October 1, 2020. The amendments in this ASU allow for a reclassification from AOCI to Retained Earnings for stranded tax effects from the Tax Cuts and Jobs Act of 2017 ("TCJA"). For the Company, these amendments are limited to any unrealized gains and losses held in Other Comprehensive Income for debt securities AFS held at the time of the TCJA enactment. The Company determined there were no stranded tax effects from the TCJA enactment and has not made any reclassification from AOCI to Retained Earnings upon adoption of this ASU.

The following tables present segment data for the Company:

(Dollars in Thousands)	Three Months Ended March 31, 2021			
	Consumer	Commercial	Corporate Services/Other	Total
Net interest income	\$ 25,085	\$ 42,404	\$ 6,361	\$ 73,850
Provision for credit losses	28,020	2,203	67	30,290
Noninterest income	98,041	13,940	1,472	113,453
Noninterest expense	30,189	27,829	37,953	95,971
Income (loss) before income tax expense	64,917	26,312	(30,187)	61,042
Total assets	531,305	3,030,088	6,228,730	9,790,123
Total goodwill	87,145	222,360	—	309,505
Total deposits	8,447,910	12,177	182,326	8,642,413

(Dollars in Thousands)	Three Months Ended March 31, 2020			
	Consumer	Commercial	Corporate Services/Other	Total
Net interest income	\$ 16,162	\$ 37,026	\$ 14,549	\$ 67,737
Provision for loan and lease losses	19,570	11,994	5,732	37,296
Noninterest income	83,208	15,523	21,782	120,513
Noninterest expense	30,450	27,361	33,918	91,729
Income (loss) before income tax expense	49,350	13,194	(3,319)	59,225
Total assets	387,871	2,529,665	2,926,329	5,843,865
Total goodwill	87,145	222,360	—	309,505
Total deposits	3,078,481	9,214	874,709	3,962,404

(Dollars in Thousands)	Six Months Ended March 31, 2021			
	Consumer	Commercial	Corporate Services/Other	Total
Net interest income	\$ 47,432	\$ 84,252	\$ 8,165	\$ 139,849
Provision for credit losses	30,386	8,670	(2,677)	36,379
Noninterest income	123,376	29,106	6,426	158,908
Noninterest expense	48,351	54,997	65,198	168,546
Income (loss) before income tax expense	92,071	49,691	(47,930)	93,832
Total assets	531,305	3,030,088	6,228,730	9,790,123
Total goodwill	87,145	222,360	—	309,505
Total deposits	8,447,910	12,177	182,326	8,642,413

(Dollars in Thousands)	Six Months Ended March 31, 2020			
	Consumer	Commercial	Corporate Services/Other	Total
Net interest income	\$ 32,719	\$ 76,762	\$ 22,907	\$ 132,388
Provision for loan and lease losses	20,544	15,695	4,464	40,703
Noninterest income	107,972	30,502	19,521	157,995
Noninterest expense	47,190	54,086	66,250	167,526
Income (loss) before income tax expense	72,957	37,483	(28,286)	82,154
Total assets	387,871	2,529,665	2,926,329	5,843,865
Total goodwill	87,145	222,360	—	309,505
Total deposits	3,078,481	9,214	874,709	3,962,404

NOTE 18. FAIR VALUES OF FINANCIAL INSTRUMENTS

ASC 820, *Fair Value Measurements* defines fair value, establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system and requires disclosures about fair value measurement. It clarifies that 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 in the market in which the reporting entity transacts.

The fair value hierarchy is as follows:

Level 1 Inputs - Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access at measurement date.

Level 2 Inputs - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market.

Level 3 Inputs - Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability.

Debt Securities Available for Sale and Held to Maturity. Debt securities available for sale are recorded at fair value on a recurring basis and debt securities held to maturity are carried at amortized cost.

The fair value of debt securities available for sale, categorized primarily as Level 2, is recorded using prices obtained from independent asset pricing services that are based on observable transactions, but not quoted markets. Management reviews the prices obtained from independent asset pricing servicing for unusual fluctuations and comparison to current market trading activity.

Equity Securities. Marketable equity securities and certain non-marketable equity securities are recorded at fair value on a recurring basis. The fair values of marketable equity securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The following tables summarize the fair values of debt securities available for sale and equity securities as they are measured at fair value on a recurring basis:

(Dollars in Thousands)	Fair Value At March 31, 2021			
	Total	Level 1	Level 2	Level 3
Debt securities AFS				
SBA securities	\$ 170,006	\$ —	\$ 170,006	\$ —
Obligations of states and political subdivisions	2,816	—	2,816	—
Non-bank qualified obligations of states and political subdivisions	295,722	—	295,722	—
Asset-backed securities	453,403	—	453,403	—
Mortgage-backed securities	558,833	—	558,833	—
Total debt securities AFS	\$ 1,480,780	\$ —	\$ 1,480,780	\$ —
Common equities and mutual funds ⁽¹⁾	\$ 3,235	\$ 3,235	\$ —	\$ —
Non-marketable equity securities ⁽²⁾	\$ 4,265	\$ —	\$ —	\$ —

⁽¹⁾ Equity securities at fair value are included within other assets on the Condensed Consolidated Statements of Financial Condition at March 31, 2021 and September 30, 2020.

⁽²⁾ Consists of certain non-marketable equity securities that are measured at fair value using net asset value ("NAV") per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

(Dollars in Thousands)	Fair Value At September 30, 2020			
	Total	Level 1	Level 2	Level 3
Debt securities AFS				
SBA securities	\$ 164,955	\$ —	\$ 164,955	\$ —
Obligations of states and political subdivisions	841	—	841	—
Non-bank qualified obligations of states and political subdivisions	323,774	—	323,774	—
Asset-backed securities	324,925	—	324,925	—
Mortgage-backed securities	453,607	—	453,607	—
Total debt securities AFS	\$ 1,268,102	\$ —	\$ 1,268,102	\$ —
Common equities and mutual funds ⁽¹⁾	\$ 2,969	\$ 2,969	\$ —	\$ —
Non-marketable equity securities ⁽²⁾	\$ 2,784	\$ —	\$ —	\$ —

⁽¹⁾ Equity securities at fair value are included within other assets on the Condensed Consolidated Statements of Financial Condition at March 31, 2021 and September 30, 2020.

⁽²⁾ Consists of certain non-marketable equity securities that are measured at fair value using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

Foreclosed Real Estate and Repossessed Assets. Real estate properties and repossessed assets are initially recorded at the fair value less selling costs at the date of foreclosure, establishing a new cost basis. The carrying amount represents the lower of the new cost basis or the fair value less selling costs of foreclosed assets that were measured at fair value subsequent to their initial classification as foreclosed assets.

Loans and Leases. The Company does not record loans and leases at fair value on a recurring basis. However, if a loan or lease is individually evaluated for risk of credit loss and repayment is expected to be solely provided by the values of the underlying collateral, the Company measures fair value on a nonrecurring basis. Fair value is determined by the fair value of the underlying collateral less estimated costs to sell. The fair value of the collateral is determined based on internal estimates and/or assessments provided by third-party appraisers and the valuation relies on discount rates ranging from 4% to 90%.

The following table summarizes the assets of the Company that are measured at fair value in the Condensed Consolidated Statements of Financial Condition on a non-recurring basis:

(Dollars in Thousands)	Fair Value At March 31, 2021			
	Total	Level 1	Level 2	Level 3
Impaired loans and leases, net				
Commercial finance	\$ 6,830	\$ —	\$ —	\$ 6,830
Total National Lending	6,830	—	—	6,830
Commercial real estate and operating	9,029	—	—	9,029
Total Community Banking	9,029	—	—	9,029
Total impaired loans and leases, net	15,859	—	—	15,859
Foreclosed assets, net	1,483	—	—	1,483
Total	\$ 17,342	\$ —	\$ —	\$ 17,342

(Dollars in Thousands)	Fair Value At September 30, 2020			
	Total	Level 1	Level 2	Level 3
Impaired loans and leases, net				
Commercial finance	\$ 9,240	\$ —	\$ —	\$ 9,240
Total National Lending	9,240	—	—	9,240
Commercial real estate and operating	20	—	—	20
Total Community Banking	20	—	—	20
Total impaired loans and leases, net	9,260	—	—	9,260
Foreclosed assets, net	9,957	—	—	9,957
Total	\$ 19,217	\$ —	\$ —	\$ 19,217

Quantitative Information About Level 3 Fair Value Measurements

(Dollars in Thousands)	Fair Value at March 31, 2021	Fair Value at September 30, 2020	Valuation Technique	Unobservable Input	Range of Inputs
Impaired loans and leases, net	\$ 15,859	9,260	Market approach	Appraised values ⁽¹⁾	4% - 90%
Foreclosed assets, net	\$ 1,483	9,957	Market approach	Appraised values ⁽¹⁾	4% - 30%

⁽¹⁾ The Company generally relies on external appraisers to develop this information. Management reduced the appraised value by estimating selling costs and other inputs in a range of 4% to 90%.

Management discloses the estimated fair value of financial instruments, including assets and liabilities on and off the Condensed Consolidated Statements of Financial Condition, for which it is practicable to estimate fair value. These fair value estimates were made at March 31, 2021 and September 30, 2020 based on relevant market information and information about financial instruments. Fair value estimates are intended to represent the price at which an asset could be sold or a liability could be settled. However, since there is no active market for certain financial instruments of the Company, the estimates of fair value are subjective in nature, involve uncertainties, and include matters of significant judgment. Changes in assumptions as well as tax considerations could significantly affect the estimated values. Accordingly, the aggregate fair value estimates are not intended to represent the underlying value of the Company, on either a going concern or a liquidation basis.

The following tables present the carrying amount and estimated fair value of the financial instruments held by the Company:

(Dollars in Thousands)	March 31, 2021				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 3,724,242	\$ 3,724,242	\$ 3,724,242	\$ —	\$ —
Debt securities available for sale	1,480,780	1,480,780	—	1,480,780	—
Debt securities held to maturity	72,112	73,294	—	73,294	—
Common equities and mutual funds ⁽¹⁾	3,235	3,235	3,235	—	—
Non-marketable equity securities ⁽¹⁾⁽²⁾	18,015	18,015	—	13,750	—
Loans held for sale	67,635	67,635	—	67,635	—
Loans and leases receivable	3,648,028	3,655,832	—	—	3,655,832
Federal Reserve Bank and Federal Home Loan Bank stocks	28,433	28,433	—	28,433	—
Accrued interest receivable	17,429	17,429	17,429	—	—
Financial liabilities					
Deposits	8,642,413	8,642,560	8,600,335	42,225	—
Other short- and long-term borrowings	95,336	97,259	—	97,259	—
Accrued interest payable	679	679	679	—	—

⁽¹⁾ Equity securities at fair value are included within other assets on the Condensed Consolidated Statements of Financial Condition at March 31, 2021 and September 30, 2020.

⁽²⁾ Includes certain non-marketable equity securities that are measured at fair value using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

(Dollars in Thousands)	September 30, 2020				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 427,367	\$ 427,367	\$ 427,367	\$ —	\$ —
Debt securities available for sale	1,268,102	1,268,102	—	1,268,102	—
Debt securities held to maturity	92,610	93,745	—	93,745	—
Common equities and mutual funds ⁽¹⁾	2,969	2,969	2,969	—	—
Non-marketable equity securities ⁽¹⁾⁽²⁾	14,784	14,784	—	12,000	—
Loans held for sale	183,577	183,577	—	183,577	—
Loans and leases receivable	3,314,140	3,307,037	—	—	3,307,037
Federal Reserve Bank and Federal Home Loan Bank stocks	27,138	27,138	—	27,138	—
Accrued interest receivable	16,628	16,628	16,628	—	—
Financial liabilities					
Deposits	4,979,200	4,980,073	4,705,028	275,045	—
Overnight federal funds purchased	—	—	—	—	—
Federal Home Loan Bank advances	—	—	—	—	—
Other short- and long-term borrowings	98,224	100,185	—	100,185	—
Accrued interest payable	1,923	1,923	1,923	—	—

⁽¹⁾ Equity securities at fair value are included within other assets on the Condensed Consolidated Statements of Financial Condition at March 31, 2021 and September 30, 2020.

⁽²⁾ Includes certain non-marketable equity securities that are measured at fair value using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

NOTE 19. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after March 31, 2021. During this period, up to the filing date of this Quarterly Report on Form 10-Q, management identified the following subsequent event:

- The Bank is reorganizing its payments team to best support its emerging and established customers. In connection with this realignment, Sheree S. Thornsberry, Executive Vice President and Head of Payments of the Bank, will no longer be employed in her position effective May 7, 2021.

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

META FINANCIAL GROUP, INC.®
AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

Meta Financial Group, Inc.® ("Meta" or "the Company" or "us") and its wholly-owned subsidiary, MetaBank®, National Association ("MetaBank" or "the Bank") may from time to time make written or oral "forward-looking statements," including statements contained in this Quarterly Report on Form 10-Q, the Company's other filings with the Securities and Exchange Commission (the "SEC"), the Company's reports to stockholders, and other communications by the Company and MetaBank, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

You can identify forward-looking statements by words such as "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," "could," "future," or the negative of those terms, or other words of similar meaning or similar expressions. You should carefully read statements that contain these words because they discuss our future expectations or state other "forward-looking" information. These forward-looking statements are based on information currently available to us and assumptions about future events, and include statements with respect to the Company's beliefs, expectations, estimates, and intentions, which are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such risks, uncertainties and other factors may cause our actual growth, results of operations, financial condition, cash flows, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Such statements address, among others, the following subjects: future operating results; expectations in connection with the impact of the ongoing COVID-19 pandemic and related governmental actions on the Company and MetaBank; industry and the capital markets; customer retention; loan and other product demand; expectations concerning acquisitions and divestitures; new products and services; credit quality; the level of net charge-offs and the adequacy of the allowance for credit losses; technology; and the Company's employees. The following factors, among others, could cause the Company's financial performance and results of operations to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: maintaining our executive management team; expected growth opportunities may not be realized or may take longer to realize than expected; the potential adverse effects of the ongoing COVID-19 pandemic and any governmental or societal responses thereto including the deployment and efficacy of the COVID-19 vaccines, or other unusual and infrequently occurring events; actual changes in interest rates and the Fed Funds rate; additional changes in tax laws; the strength of the United States' economy, in general, and the strength of the local economies in which the Company operates; changes in trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve"); inflation, market, and monetary fluctuations; the timely and efficient development of, and acceptance of, new products and services offered by the Company or its strategic partners, as well as risks (including reputational and litigation) attendant thereto, and the perceived overall value of these products and services by users; the Bank's ability to maintain its Durbin Amendment exemption; the risks of dealing with or utilizing third parties, including, in connection with the Company's refund advance business, the risk of reduced volume of refund advance loans as a result of reduced customer demand for or usage of Meta's strategic partners' refund advance products; our relationship with, and any actions which may be initiated by our regulators; the impact of changes in financial services laws and regulations, including, but not limited to, laws and regulations relating to the tax refund industry and the insurance premium finance industry and recent and potential changes in response to the ongoing COVID-19 pandemic, including various laws and the rules and regulations that may be promulgated thereunder; technological changes, including, but not limited to, the protection of our electronic systems and information; the impact of acquisitions and divestitures; litigation risk; the growth of the Company's business, as well as expenses related thereto; continued maintenance by MetaBank of its status as a well-capitalized institution; changes in consumer spending and saving habits; the impact of our participation as prepaid card issuer for the EIP program and potentially similar programs in the future; losses from fraudulent or illegal activity; technological risks and developments, and cyber threats, attacks or events; and the success of the Company at maintaining its high quality asset level and managing and collecting assets of borrowers in default should problem assets increase.

The foregoing list of factors is not exclusive. We caution you not to place undue reliance on these forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q speak only as of the date hereof, and the Company does not undertake any obligation to update, revise, or clarify these forward-looking statements whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in its entirety by the cautionary statements contained or referred to in this section. Additional discussions of factors affecting the Company's business and prospects are reflected under the caption "Risk Factors" and in other sections of the Company's Annual Report on Form 10-K for the Company's fiscal year ended September 30, 2020, and in other filings made with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries, whether as a result of new information, changed circumstances, or future events or for any other reason.

GENERAL

The Company, a registered bank holding company, is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of the Bank, a national bank. Unless the context otherwise requires, references herein to the Company include Meta and the Bank, and all direct or indirect subsidiaries of Meta on a consolidated basis.

The Company's common stock trades on the NASDAQ Global Select Market under the symbol "CASH."

The following discussion focuses on the consolidated financial condition of the Company at March 31, 2021, compared to September 30, 2020, and the consolidated results of operations for the three and six months ended March 31, 2021 and 2020. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2020 and the related management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

EXECUTIVE SUMMARY

Business Developments

The following highlights certain business developments during the quarter ended March 31, 2021:

- Increased revenue included the benefits of H&R Block's suite of financial services products.
- Partnered with the U.S. Department of the Treasury's Bureau of the Fiscal Service ("Fiscal Service") to disperse Economic Income Payment ("EIP") stimulus payments through the distribution of prepaid cards. During the quarter, the Company began distributing cards under the authorizations for the second round on January 4, 2021 and for the third round on March 23, 2021.
- Selected as the issuing bank for Walgreens' newly launched bank-account product with InComm Payments and MasterCard, adding to the Bank's diverse suite of Banking as a Service relationships.
- Expanded our solar lending business, increasing our solar lending originations for the first six months of the fiscal year 2021 by 65% to \$58.5 million.
- Dedicated additional resources to our Environmental, Social, and Governance ("ESG") activities to include the hiring a Chief People and Inclusion Officer, Kia Tang.

Financial Highlights for the 2021 Fiscal Second Quarter

Total revenue for the fiscal 2021 second quarter was \$187.3 million, a slight decrease compared to \$188.3 million for the same quarter in fiscal 2020, which benefited from the one-time \$19.3 million gain from the divestiture of the Community Bank division.

Net interest income for the second quarter was \$73.9 million, compared to \$67.7 million in the comparable quarter of the prior year. The increase was primarily driven by a reduction in total interest expense, partially offset by lower overall yields realized on investments and loans and leases. Net interest margin ("NIM") decreased to 3.07% for the fiscal 2021 second quarter from 4.78% during the same period of last year, chiefly reflecting excess cash associated with the Company's participation in the EIP program, as described further below.

The Company's total gross loans and leases at March 31, 2021 increased \$37.2 million, or 1%, to \$3.65 billion, compared to March 31, 2020. Average deposits from the payments divisions for the fiscal 2021 second quarter increased nearly 181% to \$9.29 billion when compared to the same quarter of the prior year. A significant portion of the year-over-year increase reflected the Company's participation in the EIP program, as described further below. The Company's cost of funds for all deposits and borrowings averaged 0.08% during the fiscal 2021 second quarter, compared to 0.83% during the prior year quarter, primarily due to an increase in the average balance of the Company's noninterest-bearing deposits from the EIP program.

Noninterest income for the three months ended March 31, 2021 decreased to \$113.5 million, compared to \$120.5 million for the same period of the prior year. This decrease was primarily due to the \$19.3 million gain on divestiture of the Community Bank division, which was recognized during the fiscal 2020 second quarter. Partially offsetting the decrease were increases in total tax product fee income and payment card and deposit fee income.

Noninterest expense increased 5% to \$96.0 million for the fiscal 2021 second quarter, from \$91.7 million for the same quarter of last year, primarily driven by increases in compensation and benefits due to a return to more normalized incentive accruals and additional employees to support growth.

The Company repurchased 734,984 shares during the second quarter at an average price of \$40.78.

Tax Season

For the 2021 tax season, the Bank originated \$1.79 billion in refund advance loans compared to \$1.33 billion during the 2020 tax season.

During the fiscal 2021 second quarter, total tax services product revenue was \$67.0 million, an increase of 17% compared to the fiscal 2020 second quarter.

While the 2021 tax services results have thus far been favorable compared to the prior year's tax season, it has been below the Company's expectations as a result of reduced overall demand for refund advances due to consumers having access to EIP stimulus funds, which have been partially offset by higher payments fee income. We do expect overall tax season refund transfer volumes and revenue to be similar to last year. We believe the impacts to the tax advance product are unique to this tax season and the Company anticipates more normalized results from its H&R Block and Jackson Hewitt relationships will be achieved in the 2022 tax season and beyond. Despite these stimulus-related impacts, total tax services product income, net of losses and direct product expenses, increased 14% when comparing the first six months of fiscal 2021 to the same period of the prior fiscal year.

EIP Program Update

The Bank is serving as the sole Financial Agent for distributing prepaid debit cards used in the EIP program. In 2020, the Bank dispensed approximately \$6.42 billion of the first round of EIP payments under the CARES Act through the distribution of 3.6 million Bank-issued prepaid cards, and earlier this year dispensed approximately \$7.10 billion of the second round of EIP payments under the CAA through the distribution of 8.1 million Bank-issued prepaid cards.

On March 11, 2021, the U.S. Congress, through the ARP Act, directed the Internal Revenue Service, to distribute a third round of EIP via the U.S. Treasury to persons in the U.S. eligible to receive them. The Bank has entered into an amendment of its existing agreement with the Fiscal Service under which the Bank acts as its Financial Agent in connection with the provision of prepaid debit card services to disburse a portion of the EIP payments to eligible recipients via Bank-issued prepaid cards. Through this third round, the Bank disbursed approximately \$10.64 billion of EIP payments through the distribution of 4.7 million Bank-issued prepaid cards.

Through March 31, 2021 the Bank has issued a combined total of 16.5 million prepaid cards totaling approximately \$24.15 billion related to three stimulus programs, of which \$11.64 billion is still outstanding as of March 31, 2021. Of that balance, only \$869.2 million remained on Meta's balance sheet, as MetaBank has been working with other banks to transfer these temporary deposits off the balance sheet.

The Company anticipates that participating in the EIP card distribution program will continue to have a slightly positive impact on earnings and it does not expect any material impact on its risk-based capital ratios due to the participation in the card distribution program. Additionally, the Company does not expect these conditions will be sustained over the long-term.

COVID-19 Business Update

As of March 31, 2021, the Company had 576 loans outstanding with total loan balances of \$208.6 million originated as part of the PPP, compared with 612 loans outstanding with total loan balances of \$194.3 million for the quarter ended December 31, 2020.

As of March 31, 2021, \$66.5 million of the loans and leases that were granted deferral payments by the Company were still in their deferment period. As of December 31, 2020, loans and leases totaling \$84.2 million were within their deferment period.

The Company's capital position remained in good standing as of March 31, 2021, even while continuing to absorb the temporary impact resulting from the receipt of deposits in conjunction with EIP payments described below. In addition, the Company has options available that can be used to effectively manage capital levels, including a strong and flexible balance sheet.

FINANCIAL CONDITION

At March 31, 2021, the Company's total assets increased by \$3.70 billion to \$9.79 billion compared to September 30, 2020, primarily due to a \$3.30 billion increase in cash and cash equivalents.

Total cash and cash equivalents was \$3.72 billion at March 31, 2021, increasing from \$427.4 million at September 30, 2020, primarily resulting from the receipt of EIP related deposits. The Bank has been working with other banks to transfer these temporary deposits off the balance sheet. Otherwise, the Company maintains its cash investments primarily in interest-bearing overnight deposits with the FHLB of Des Moines and the FRB. At March 31, 2021, the Company did not have any federal funds sold.

The total investment portfolio increased \$192.2 million, or 14%, to \$1.55 billion at March 31, 2021, compared to \$1.36 billion at September 30, 2020, as purchases exceeded maturities and principal pay downs. The Company's portfolio of securities customarily consists primarily of MBS, which have expected lives much shorter than the stated final maturity, non-bank qualified obligations of states and political subdivisions, which mature in approximately 15 years or less, and other tax exempt municipal mortgage related pass through securities which have average lives much shorter than their stated final maturities. All MBS held by the Company at March 31, 2021 were issued by a U.S. Government agency or instrumentality. Of the total MBS at March 31, 2021, \$558.8 million, at fair value, were classified as available for sale, and \$4.4 million, at cost, were classified as held to maturity. Of the total investment securities at March 31, 2021, \$921.9 million, at fair value, were classified as available for sale and \$67.7 million, at cost, were classified as held to maturity. During the six months ended March 31, 2021, the Company purchased \$411.5 million of investment securities.

Loans held for sale at March 31, 2021 totaled \$67.6 million, decreasing from \$183.6 million at September 30, 2020. This decrease was primarily driven by sales of the retained Community Bank loan portfolio to Central Bank during the six months ended March 31, 2021.

The Company's total loans and leases increased \$333.9 million, or 10%, to \$3.65 billion at March 31, 2021, from \$3.31 billion at September 30, 2020. The increase was primarily driven by growth in the commercial finance and tax services portfolios partially offset by the continued decrease in community banking loan balances. See Note 6 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

National lending loans and leases increased \$471.4 million, or 17% to \$3.30 billion at March 31, 2021 compared to September 30, 2020. Within the National Lending portfolios, commercial finance loans and leases increased \$197.9 million, tax services loans increased \$222.9 million, consumer finance increased \$11.5 million and warehouse finance increased \$39.1 million at March 31, 2021 compared to September 30, 2020. The increase in commercial finance loan balances was largely driven by the term lending and asset based lending categories. The seasonality of the Company's tax services business led to the increase in tax services loans at March 31, 2021 compared to September 30, 2020.

Community banking loans decreased \$137.5 million, or 28%, at March 31, 2021 compared to September 30, 2020, primarily attributable to loan portfolio sales along with continued principal payments and payoffs. As of March 31, 2021, the Company had no community banking loans classified as held for sale.

Through the Bank, the Company owns stock in the FHLB due to the Bank's membership and participation in this banking system as well as stock in the Federal Reserve Bank. The FHLB requires a level of stock investment based on a pre-determined formula. The Company's investment in these stocks increased \$1.3 million, or 5%, to \$28.4 million at March 31, 2021 from \$27.1 million at September 30, 2020, resulting from the purchase of FHLB membership stock.

Total end-of-period deposits increased \$3.66 billion, or 74%, at March 31, 2021 to \$8.64 billion as compared to September 30, 2020, primarily driven by an increase in noninterest-bearing deposits of \$3.57 billion, which was largely attributable to the balances on the EIP cards.

The average balance of total deposits and interest-bearing liabilities was \$7.57 billion for the six-months ended March 31, 2021, compared to \$5.39 billion for the same period of the prior fiscal year. The average balance of noninterest-bearing deposits for the six-months ended March 31, 2021 increased \$3.94 billion, or 133%, to \$6.90 billion compared to the same period in the prior year. These increases were primarily attributable to EIP related deposit balances.

The Company's total borrowings decreased \$2.9 million, or 3%, from \$98.2 million at September 30, 2020 to \$95.3 million at March 31, 2021. The Company also has an available no-fee line of credit with JP Morgan of \$25.0 million with no funds advanced at March 31, 2021.

At March 31, 2021, the Company's stockholders' equity totaled \$835.3 million, a decrease of \$12.1 million, from \$847.3 million at September 30, 2020. The decrease was primarily attributable to a reduction in retained earnings related to activity from the Company's share repurchase programs, offset in part by an increase in additional paid-in capital. The Company and Bank remained above the federal regulatory minimum capital requirements at March 31, 2021, continued to be classified as well-capitalized, and in good standing with the regulatory agencies. See "Liquidity and Capital Resources" for further information.

Payments Noninterest-bearing Checking Deposits

The Company may hold negative balances associated with cardholder programs in the payments division that are included within noninterest-bearing deposits on the Company's Condensed Consolidated Statements of Financial Condition. Negative balances can relate to any of the following payments functions:

- Prefundings: The Company deploys funds to cards prior to receiving cash (typically 2-3 days) where the prefunding balance is netted at a pooled partner level utilizing ASC 210-20.
- Discount fundings: The Company funds cards in an amount that is estimated to be less than final breakage values on card programs. Consumers may spend more than is estimated. These discounts are netted at a pooled partner level using ASC 210-20. The majority of these discount fundings relate to one partner.
- Demand Deposit Account ("DDA") overdrafts: Certain programs offered allow cardholders traditional DDA overdraft protection services whereby cardholders can spend a limited amount in excess of their available card balance. When overdrawn, these accounts are re-classified as loans on the balance sheet within the Consumer Finance category.

The Company meets the Right of Set off criteria in ASC 210-20, Balance Sheet - Offsetting, for all payments negative deposit balances with the exception of DDA overdrafts. The following table summarizes the Company's negative deposit balances within the payments division:

(Dollars in Thousands)	March 31, 2021	September 30, 2020
Noninterest-bearing deposits	\$ 8,338,473	\$ 4,960,276
Prefunding	(325,640)	(528,131)
Discount funding	(73,127)	(62,443)
DDA overdrafts	(11,471)	(13,072)
Noninterest-bearing checking, net	<u>\$ 7,928,235</u>	<u>\$ 4,356,630</u>

RESULTS OF OPERATIONS

General

The Company recorded net income of \$59.1 million, or \$1.84 per diluted share, for the three months ended March 31, 2021, compared to net income of \$52.3 million, or \$1.45 per diluted share, for the three months ended March 31, 2020. Total revenue for the fiscal 2021 second quarter was \$187.3 million, compared to \$188.3 million for the same quarter in fiscal 2020, a slight decrease. The increase in net income was primarily driven by an increase in net interest income and a decrease in provision for credit loss expense.

The Company recorded net income of \$87.1 million, or \$2.65 per diluted share, for the six months ended March 31, 2021, compared to \$73.4 million, or \$2.00 per diluted share, compared to the same period in the prior year. Total revenue for the six months ended March 31, 2021 was \$298.8 million, compared to \$290.4 million for the same period of the prior year, an increase of 3%.

Net Interest Income

Net interest income for the fiscal 2021 second quarter was \$73.9 million, an increase of 9%, from \$67.7 million for the same quarter in fiscal 2020. The increase was primarily driven by a reduction in total interest expense, partially offset by lower overall yields realized on investments and loans and leases. For the six months ended March 31, 2021, net interest income was \$139.8 million, an increase of 6%, from \$132.4 million compared to the same period in the prior year.

During the fiscal 2021 second quarter, interest expense decreased \$9.8 million which was partially offset by decreases in loan and lease interest income of \$2.0 million and investment securities and cash interest income of \$1.7 million, when comparing to the prior year quarter. The quarterly average outstanding balance of loans and leases increased by 8% on a linked quarter basis primarily due to seasonal tax services loans with growth from Term Lending, Asset Based Lending, and SBA/USDA, partially offset by lower community bank loan balances. The Company's average interest-earning assets for the fiscal 2021 second quarter increased by \$4.07 billion, to \$9.77 billion compared with the second quarter in fiscal 2020, primarily due to the effects of the EIP program.

NIM decreased to 3.07% in the fiscal 2021 second quarter from 4.78% for the comparable quarter last year. The overall reported tax equivalent yield ("TEY") on average earning assets decreased by 249 basis points to 3.15% for the fiscal 2021 second quarter compared to the prior year quarter, driven primarily by excess low-yielding cash held at the Federal Reserve, as well as the lower interest rate environment. The fiscal 2021 second quarter TEY on the securities portfolio was 1.78% compared to 2.68% for the comparable period last year.

For the six months ended March 31, 2021, NIM was 3.65%, decreasing 121 basis points from 4.86% compared to the same period in the prior year. Net interest margin, tax-equivalent for the six months ended March 31, 2021 was 3.67%, a decrease of 123 basis points compared to the same period in the prior year.

The Company's cost of funds for all deposits and borrowings averaged 0.08% during the fiscal 2021 second quarter, compared to 0.83% during the prior year quarter. This reflected primarily an increase in the average balance of the Company's noninterest-bearing deposits, mainly due to the EIP program noted above. The Company's overall cost of deposits was 0.02% in the fiscal 2021 second quarter, compared to 0.66% in the same quarter last year.

The following tables present, for the periods indicated, the Company's total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. Tax-equivalent adjustments have been made in yield on interest-bearing assets and net interest margin. Nonaccruing loans and leases have been included in the table as loans carrying a zero yield.

	Three Months Ended March 31,					
	2021			2020		
(Dollars in Thousands)	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate ⁽¹⁾	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate ⁽¹⁾
Interest-earning assets:						
Cash & fed funds sold	\$ 4,187,558	\$ 1,090	0.11 %	\$ 196,754	\$ 739	1.51 %
Mortgage-backed securities	543,256	2,607	1.95 %	358,103	2,493	2.80 %
Tax exempt investment securities	297,299	1,132	1.96 %	454,177	2,132	2.39 %
Asset-backed securities	389,406	1,290	1.34 %	304,674	2,271	3.00 %
Other investment securities	230,168	1,077	1.90 %	192,379	1,275	2.67 %
Total investments	1,460,129	6,106	1.78 %	1,309,333	8,171	2.68 %
Total commercial finance	2,471,694	46,299	7.60 %	2,020,358	41,643	8.29 %
Total consumer finance	255,625	6,968	11.06 %	264,307	5,386	8.20 %
Total tax services	714,789	6,544	3.71 %	516,491	6,351	4.95 %
Total warehouse finance	315,162	4,845	6.23 %	314,474	4,785	6.12 %
National Lending loans and leases	3,757,270	64,656	6.98 %	3,115,630	58,165	7.51 %
Community Banking loans	363,285	3,817	4.26 %	1,080,142	12,328	4.59 %
Total loans and leases	4,120,555	68,473	6.74 %	4,195,772	70,493	6.76 %
Total interest-earning assets	9,768,242	\$ 75,669	3.15 %	5,701,859	\$ 79,403	5.64 %
Noninterest-earning assets	887,610			909,040		
Total assets	\$ 10,655,852			\$ 6,610,899		
Interest-bearing liabilities:						
Interest-bearing checking ⁽²⁾	\$ 275,982	\$ —	— %	\$ 182,107	\$ 105	0.23 %
Savings	77,562	4	0.02 %	46,592	6	0.05 %
Money markets	56,352	42	0.30 %	68,421	153	0.90 %
Time deposits	12,820	34	1.07 %	84,940	427	2.02 %
Wholesale deposits	175,777	365	0.84 %	1,476,085	7,551	2.06 %
Total interest-bearing deposits	598,493	445	0.30 %	1,858,145	8,242	1.78 %
Overnight fed funds purchased	—	—	— %	372,596	1,307	1.41 %
FHLB advances	—	—	— %	110,000	670	2.45 %
Subordinated debentures	73,864	1,147	6.30 %	73,698	1,158	6.32 %
Other borrowings	22,377	227	4.12 %	28,714	289	4.04 %
Total borrowings	96,241	1,374	5.79 %	585,008	3,424	2.35 %
Total interest-bearing liabilities	694,734	1,819	1.06 %	2,443,153	11,666	1.92 %
Noninterest-bearing deposits	8,967,067	—	— %	3,199,148	—	— %
Total deposits and interest-bearing liabilities	9,661,801	\$ 1,819	0.08 %	5,642,301	\$ 11,666	0.83 %
Other noninterest-bearing liabilities	177,372			136,759		
Total liabilities	9,839,173			5,779,060		
Shareholders' equity	816,679			831,839		
Total liabilities and shareholders' equity	\$ 10,655,852			\$ 6,610,899		
Net interest income and net interest rate spread including noninterest-bearing deposits		\$ 73,850	3.08 %		\$ 67,737	4.81 %
Net interest margin			3.07 %			4.78 %
Tax-equivalent effect			0.01 %			0.04 %
Net interest margin, tax-equivalent ⁽³⁾			3.08 %			4.82 %

⁽¹⁾ Tax rate used to arrive at the TEY for the three months ended March 31, 2021 and 2020 was 21%.

⁽²⁾ Of the total balance, \$275.7 million are interest-bearing deposits where interest expense is paid by a third party and not by the Company.

⁽³⁾ Net interest margin expressed on a fully-taxable-equivalent basis ("net interest margin, tax-equivalent") is a non-GAAP financial measure. The tax-equivalent adjustment to net interest income recognizes the estimated income tax savings when comparing taxable and tax-exempt assets and adjusting for federal and state exemption of interest income. The Company believes that it is a standard practice in the banking industry to present net interest margin expressed on a fully taxable equivalent basis and, accordingly, believes the presentation of this non-GAAP financial measure may be useful for peer comparison purposes.

(Dollars in Thousands)	Six Months Ended March 31,					
	2021			2020		
	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate ⁽¹⁾	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate ⁽¹⁾
Interest-earning assets:						
Cash & fed funds sold	\$ 2,485,330	\$ 1,932	0.16 %	\$ 147,910	\$ 1,151	1.56 %
Mortgage-backed securities	490,358	4,730	1.93 %	367,280	4,882	2.66 %
Tax exempt investment securities	315,714	2,348	1.89 %	472,680	4,471	2.39 %
Asset-backed securities	357,514	2,490	1.40 %	304,278	4,626	3.04 %
Other investment securities	226,032	2,186	1.94 %	194,960	2,704	2.77 %
Total investments	1,389,618	11,754	1.79 %	1,339,198	16,683	2.67 %
Total commercial finance	2,444,396	91,928	7.54 %	2,000,325	86,423	8.64 %
Total consumer finance	247,534	11,716	9.49 %	267,477	11,176	8.36 %
Total tax services	366,157	6,553	3.59 %	269,115	6,385	4.74 %
Total warehouse finance	299,510	9,778	6.55 %	289,885	8,960	6.18 %
National Lending loans and leases	3,357,597	119,975	7.17 %	2,826,802	112,944	7.99 %
Community Banking loans	447,096	10,153	4.55 %	1,137,423	26,251	4.62 %
Total loans and leases	3,804,693	130,128	6.86 %	3,964,225	139,195	7.02 %
Total interest-earning assets	7,679,641	\$ 143,814	3.77 %	5,451,333	\$ 157,029	5.80 %
Noninterest-earning assets	866,262			914,034		
Total assets	\$ 8,545,903			\$ 6,365,367		
Interest-bearing liabilities:						
Interest-bearing checking ⁽²⁾	\$ 218,743	\$ —	— %	\$ 172,850	\$ 259	0.30 %
Savings	64,741	6	0.02 %	47,690	16	0.07 %
Money markets	54,466	81	0.30 %	74,507	357	0.96 %
Time deposits	15,130	91	1.20 %	100,014	1,022	2.04 %
Wholesale deposits	218,925	1,063	1.97 %	1,474,444	15,929	2.16 %
Total interest-bearing deposits	572,005	1,241	0.44 %	1,869,505	17,583	1.88 %
Overnight fed funds purchased	6	—	0.25 %	337,509	2,757	1.63 %
FHLB advances	—	—	— %	110,000	1,348	2.45 %
Subordinated debentures	73,841	2,294	6.23 %	73,678	2,318	6.29 %
Other borrowings	23,132	430	3.73 %	31,165	635	4.08 %
Total borrowings	96,979	2,724	5.63 %	552,352	7,058	2.56 %
Total interest-bearing liabilities	668,984	3,965	1.19 %	2,421,857	24,641	2.03 %
Noninterest-bearing deposits	6,901,255	—	— %	2,964,329	—	— %
Total deposits and interest-bearing liabilities	7,570,239	\$ 3,965	0.11 %	5,386,186	\$ 24,641	0.91 %
Other noninterest-bearing liabilities	164,307			143,576		
Total liabilities	7,734,546			5,529,762		
Shareholders' equity	811,357			835,605		
Total liabilities and shareholders' equity	\$ 8,545,903			\$ 6,365,367		
Net interest income and net interest rate spread including noninterest-bearing deposits		\$ 139,849	3.67 %		\$ 132,388	4.89 %
Net interest margin			3.65 %			4.86 %
Tax-equivalent effect			0.02 %			0.04 %
Net interest margin, tax-equivalent ⁽³⁾			3.67 %			4.90 %

⁽¹⁾ Tax rate used to arrive at the TEY for the six months ended March 31, 2021 and 2020 was 21%.

⁽²⁾ Of the total balance, \$218.5 million are interest-bearing deposits where interest expense is paid by a third party and not by the Company.

⁽³⁾ Net interest margin expressed on a fully-taxable-equivalent basis ("net interest margin, tax-equivalent") is a non-GAAP financial measure. The tax-equivalent adjustment to net interest income recognizes the estimated income tax savings when comparing taxable and tax-exempt assets and adjusting for federal and state exemption of interest income. The Company believes that it is a standard practice in the banking industry to present net interest margin expressed on a fully taxable equivalent basis and, accordingly, believes the presentation of this non-GAAP financial measure may be useful for peer comparison purposes.

Provision for Credit Losses

The Company recorded a \$30.3 million and a \$36.4 million provision for credit losses for the three and six months ended March 31, 2021, as compared to a \$37.3 million and \$40.7 million provision for credit losses for the same period of the prior year. The decrease in the overall provision compared to the prior year was due in large part to the increase in the allowance as part of the Company's response to the emerging COVID-19 pandemic during the fiscal 2020 second quarter. Partially offsetting that decrease was an increase in provision expense related to originating higher volumes of tax services loans for the fiscal 2021 second quarter, compared to the comparable quarter of the prior year.

Noninterest Income

Noninterest income for the fiscal 2021 second quarter decreased to \$113.5 million from \$120.5 million for the same period in the prior fiscal year. This was due primarily to the \$19.3 million gain on divestiture of the Community Bank division, which was recognized during the fiscal 2020 second quarter. Partially offsetting the decrease were increases in total tax product fee income and payment card and deposit fee income.

Noninterest income for the six months ended March 31, 2021 increased by \$0.9 million, or 1%, to \$158.9 million compared to the same period in the prior fiscal year.

Noninterest Expense

Noninterest expense increased 5% to \$96.0 million for the fiscal 2021 second quarter, from \$91.7 million for the same quarter of fiscal 2020, primarily driven by increases in compensation and benefits due to a return to more normalized incentive accruals and additional employees to support growth.

Noninterest expense for the six months ended March 31, 2021 increased by \$1.0 million, or 1%, to \$168.5 million compared to the same period in the prior fiscal year.

Income Tax Expense

The Company recorded an income tax expense of \$1.1 million, representing an effective tax rate of 1.9%, for the fiscal 2021 second quarter, compared to an income tax expense of \$5.6 million, representing an effective tax rate of 9.5%, for the fiscal 2020 second quarter.

The Company originated \$20.0 million in solar leases during the fiscal 2021 second quarter, compared to \$17.6 million during the fiscal 2020 second quarter. The investment tax credit for the second quarter reflected an adjustment to the full fiscal year's projected investment tax credit volumes, which contributed to the overall reduction in income tax expense compared to the prior year. Investment tax credits related to solar leases are recognized ratably based on income throughout each fiscal year. The timing and impact of future solar tax credits are expected to vary from period to period, and Meta intends to undertake only those tax credit opportunities that meet the Company's underwriting and return criteria.

Nonperforming Assets and Allowance for Loan and Lease Losses

Generally, when a loan or lease becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan or lease on a non-accrual status and, as a result, previously accrued interest income on the loan or lease is reversed against current income. The loan or lease will generally remain on a non-accrual status until six months of good payment history has been established or management believes the financial status of the borrower has been significantly restored. Certain relationships in the table below are over 90 days past due and still accruing. The Company considers these relationships as being in the process of collection. Insurance premium finance loans, consumer finance and tax services loans are generally not placed on non-accrual status, but are instead written off when the collection of principal and interest become doubtful.

Loans and leases, or portions thereof, are charged-off when collection of principal becomes doubtful. Generally, this is associated with a delay or shortfall in payments of greater than 210 days for insurance premium finance, 180 days for tax and other specialty lending loans, 120 days for consumer credit products and 90 days for other loans. Action is taken to charge off ERO loans if such loans have not been collected by the end of June and taxpayer advance loans if such loans have not been collected by the end of the calendar year. Non-accrual loans and troubled debt restructurings are generally considered impaired.

The Company believes that the level of allowance for credit losses at March 31, 2021 was appropriate and reflected probable losses related to these loans and leases; however, there can be no assurance that all loans and leases will be fully collectible or that the present level of the allowance will be adequate in the future. See the section below titled "Allowance for Credit Losses" for further information.

The table below sets forth the amounts and categories of nonperforming assets in the Company's portfolio as of the dates set forth below. Foreclosed assets include assets acquired in settlement of loans.

(Dollars in Thousands)	March 31, 2021	September 30, 2020
<u>Nonperforming loans and leases</u>		
Nonaccruing loans and leases:		
Term lending	\$ 14,665	\$ 16,274
Asset based lending	382	—
Factoring	35	1,096
Lease financing	2,623	3,583
SBA/USDA	600	600
Commercial finance	18,305	21,553
Total National Lending	18,305	21,553
Commercial real estate and operating	17,896	580
Consumer one-to-four family real estate and other	159	50
Agricultural real estate and operating	1,769	1,769
Total Community Banking	19,824	2,399
Total	38,129	23,952
Accruing loans and leases delinquent >89 days past due:		
Term lending	353	266
Lease financing	2,043	4,344
Insurance premium finance	2,414	2,364
SBA/USDA	—	427
Commercial finance	4,810	7,401
Consumer credit products	243	499
Other consumer finance	274	373
Consumer finance	517	872
Tax services	—	1,743
Total National Lending	5,327	10,016
Commercial real estate and operating	—	50
Total Community Banking	—	50
Total	5,327	10,066
Total nonperforming loans and leases	43,456	34,018
<u>Other assets</u>		
Nonperforming operating leases	1,799	4,045
Foreclosed and repossessed assets:		
Commercial finance	1,483	9,957
Total	1,483	9,957
Total other assets	3,282	14,002
Total nonperforming assets	\$ 46,738	\$ 48,020
Total as a percentage of total assets	0.48 %	0.79 %

At March 31, 2021, nonperforming loans and leases totaled \$43.5 million, representing 1.17% of total loans and leases, compared to \$34.0 million, or 0.97% of total loans and leases at September 30, 2020.

As of March 31, 2021, \$66.5 million of the loans and leases that were granted deferral payments by the Company were still in their deferment period. As of September 30, 2020, loans and leases totaling \$170.0 million were within their deferment period.

Classified Assets. Federal regulations provide for the classification of loans, leases, and other assets such as debt and equity securities considered by our primary regulator, the OCC, to be of lesser quality as “substandard,” “doubtful” or “loss,” with each such classification dependent on the facts and circumstances surrounding the assets in question. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the Bank will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such minimal value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When assets are classified as “loss,” the Bank is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. The Bank’s determinations as to the classification of its assets and the amount of its valuation allowances are subject to review by its regulatory authorities, which may order the establishment of additional general or specific loss allowances.

On the basis of management’s review of its loans, leases, and other assets, at March 31, 2021, the Company had classified \$79.4 million of its assets as substandard, \$2.4 million as doubtful and none as loss. At September 30, 2020, the Company classified \$61.6 million of its assets as substandard, \$6.3 million as doubtful and none as loss.

Allowance for Credit Losses. Effective October 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and subsequent related ASUs (collectively “Topic 326”), which changes the impairment model for most financial assets, including trade and other receivables, debt securities held-to-maturity, loans, net investments in leases, purchased financial assets with credit deterioration, and off-balance sheet credit exposures. ASU 2016-13 requires the use of a CECL methodology to determine the ACL for loans and debt securities held-to-maturity. CECL requires loss estimates for the remaining estimated life of the assets to be measured using historical loss data, adjustments for current conditions, and adjustments for reasonable and supportable forecasts of future economic conditions.

The ACL represents management’s estimate of current credit losses expected to be incurred by the loan and lease portfolio over the life of each financial asset as of the balance sheet date. The Company individually evaluates loans and leases that do not share similar risk characteristics with other financial assets for impairment, generally this means loans and leases identified as troubled debt restructurings or loans and leases on nonaccrual status. All other loans and leases are evaluated collectively for impairment. A reserve for unfunded credit commitments such as letters of credit and binding unfunded loan commitments is recorded in other liabilities on the Condensed Consolidated Statements of Financial Condition.

Individually evaluated loans and leases are a key component of the ACL. Generally, the Company measures impairment on individually evaluated loans based on the fair value of the collateral less estimated selling costs, as the Company considers these financial assets to be collateral dependent. If an individually evaluated loan or lease is not collateral dependent, impairment is measured at the present value of expected future cash flows discounted at the loan or lease initial effective interest rate.

At March 31, 2021, the Company had established an ACL totaling \$98.9 million, compared to \$56.2 million at September 30, 2020. The increase in the allowance at March 31, 2021 was driven primarily by the adoption of the CECL accounting standard noted above, along with the seasonal allowance build in the tax services portfolio. The CECL methodology requires loss estimates for the remaining estimated life of the assets to be measured using historical loss data, adjustments for current conditions, and adjustments for reasonable and supportable forecasts of future economic conditions, which led to the increase in the ACL as of the October 1, 2020 adoption date.

The following table presents the Company's allowance for loan and lease losses as a percentage of its total loans and leases.

	As of the Period Ended					
	March 31, 2021	December 31, 2020	October 1, 2020 ⁽¹⁾	September 30, 2020	June 30, 2020	March 31, 2020
Commercial finance	1.77 %	1.88 %	1.85 %	1.30 %	1.36 %	1.28 %
Consumer finance	4.70 %	4.39 %	4.31 %	1.64 %	1.75 %	1.74 %
Tax services	12.90 %	1.53 %	0.06 %	0.06 %	59.67 %	22.22 %
Warehouse finance	0.10 %	0.10 %	0.10 %	0.10 %	0.10 %	0.10 %
National Lending	2.57 %	1.89 %	1.86 %	1.20 %	1.68 %	1.92 %
Community Banking	4.03 %	4.01 %	3.37 %	4.59 %	2.55 %	1.49 %
Total loans and leases	2.71 %	2.10 %	2.08 %	1.70 %	1.88 %	1.81 %

⁽¹⁾ Represents the Company's allowance coverage ratio upon the adoption of the Accounting Standards Update 2016-13 using September 30, 2020 loan and lease and allowance balances plus the CECL allowance adjustment.

Management closely monitors economic developments and considers these factors when assessing the appropriateness of its ACL. The Company's allowance for credit losses as a percentage of total loans and leases increased to 2.71% at March 31, 2021 from 2.10% at December 31, 2020. The increase in the total loans and leases coverage ratio was primarily driven by the seasonal tax services loan portfolio. The coverage ratios for the other non-tax-related loan categories remained relatively similar to the December 31, 2020 quarter. The change in the year-over-year tax services coverage ratio is primarily due to higher outstanding principal balances as of March 31, 2021 due in large part to the delayed start to the 2021 tax season. The increase from September 30, 2020 to December 31, 2020 was primarily due to the adoption of ASU 2016-13 on October 1, 2020. The Company expects to continue to diligently monitor the ACL and adjust as necessary in future periods to maintain an appropriate and supportable level.

Management believes that, based on a detailed review of the loan and lease portfolio, historic loan and lease losses, current economic conditions, the size of the loan and lease portfolio and other factors, the level of the ACL at March 31, 2021 reflected an appropriate allowance against inherent credit losses from the lending portfolio. Although the Company maintains its ACL at a level it considers to be appropriate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan and lease losses will not be required in future periods. In addition, the Company's determination of the ACL is subject to review by the OCC, which can require the establishment of additional general or specific allowances.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's financial statements are prepared in accordance with GAAP. The financial information contained within these financial statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. Management has identified its critical accounting policies, which are those policies that, in management's view, are most important in the portrayal of our financial condition and results of operations, and include those for the ACL, goodwill and identifiable intangible assets. These policies involve complex and subjective decisions and assessments. Some of these estimates may be uncertain at the time they are made, could change from period to period, and could have a material impact on the financial statements. A discussion of the Company's critical accounting policies and estimates can be found in the Company's Annual Report on Form 10-K for the year ended September 30, 2020. There were no significant changes to these critical accounting policies and estimates during the first six months of fiscal 2021.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, derived principally through its payments divisions, borrowings, principal and interest payments on loans and mortgage-backed securities, and maturing investment securities. In addition, the Company utilizes wholesale deposit sources to provide temporary funding when necessary or when favorable terms are available. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments are influenced by the level of interest rates, general economic conditions and competition. The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At March 31, 2021, the Company had commitments to originate and purchase loans and unused lines of credit totaling \$1.28 billion. The Company believes that loan repayments and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Pursuant to the Basel III Capital Rules, the Company and the Bank, respectively, are subject to regulatory capital adequacy requirements promulgated by the Federal Reserve and the OCC. The Basel III Capital Rules became effective for us and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. Failure by the Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by our regulators that could have a material adverse effect on our consolidated financial statements. Under the capital requirements and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum ratios (set forth in the table below) of total risk-based capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier 1 capital (as defined) to average assets (as defined). At March 31, 2021, both the Bank and the Company remained above the applicable federal regulatory minimum capital requirements, continued to be classified as well-capitalized, and remained in good standing with the regulatory agencies. A temporary exemption was granted by the OCC related to the financial impacts of distributing prepaid debit cards as part of the EIP program. The Company and the Bank made the accumulated other comprehensive income ("AOCI") opt-out election; under the rule, non-advanced approach banking organizations were given a one-time option to exclude certain AOCI components.

The tables below include certain non-GAAP financial measures that are used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews these measures along with other measures of capital as part of its financial analysis.

At March 31, 2021	Company	Bank	Minimum to be Adequately Capitalized Under Prompt Corrective Action Provisions	Minimum to be Well Capitalized Under Prompt Corrective Action Provisions
Tier 1 leverage capital ratio	4.75 %	5.47 %	4.00 %	5.00 %
Common equity Tier 1 capital ratio	11.29 %	13.39 %	4.50 %	6.50 %
Tier 1 capital ratio	11.63 %	13.40 %	6.00 %	8.00 %
Total capital ratio	14.65 %	14.66 %	8.00 %	10.00 %

The following table provides certain non-GAAP financial measures used to compute certain of the ratios included in the table above, as well as a reconciliation of such non-GAAP financial measures to the most directly comparable financial measure in accordance with GAAP:

(Dollars in Thousands)	Standardized Approach ⁽¹⁾ March 31, 2021
Total stockholders' equity	\$ 835,258
Adjustments:	
LESS: Goodwill, net of associated deferred tax liabilities	301,602
LESS: Certain other intangible assets	36,779
LESS: Net deferred tax assets from operating loss and tax credit carry-forwards	19,306
LESS: Net unrealized gains on available-for-sale securities	12,458
LESS: Noncontrolling interest	1,092
ADD: Adoption of Accounting Standards Update 2016-13	10,439
Common Equity Tier 1 Capital ⁽¹⁾	474,460
Long-term borrowings and other instruments qualifying as Tier 1	13,661
Tier 1 minority interest not included in common equity tier 1 capital	690
Total Tier 1 Capital	488,811
Allowance for loan and lease losses	53,232
Subordinated debentures (net of issuance costs)	73,892
Total Capital	\$ 615,935

⁽¹⁾ Capital ratios were determined using the Basel III capital rules that became effective on January 1, 2015. Basel III revised the definition of capital, increased minimum capital ratios, and introduced a minimum common equity tier 1 capital ratio; those changes are being fully phased in through the end of 2021.

The following table provides a reconciliation of tangible common equity and tangible common equity excluding AOCI, each of which is used in calculating tangible book value data, to Total Stockholders' Equity. Each of tangible common equity and tangible common equity excluding AOCI is a non-GAAP financial measure that is commonly used within the banking industry.

(Dollars in Thousands)	March 31, 2021
Total Stockholders' Equity	\$ 835,258
LESS: Goodwill	309,505
LESS: Intangible assets	36,903
Tangible common equity	488,850
LESS: AOCI	12,809
Tangible common equity excluding AOCI	\$ 476,041

Since January 1, 2016, the Company and the Bank have been required to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively composed of Common Equity Tier 1 capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. The required Common Equity Tier 1 risk-based, Tier 1 risk-based and total risk-based capital ratios with the buffer are currently 7.0%, 8.5% and 10.5%, respectively.

Based on current and expected continued profitability and subject to continued access to capital markets, we believe that the Company and the Bank will continue to meet the capital conservation buffer of 2.5% in addition to required minimum capital ratios.

CONTRACTUAL OBLIGATIONS

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations" in the Company's Annual Report on Form 10-K for its fiscal year ended September 30, 2020 for a summary of our contractual obligations as of September 30, 2020. There were no material changes outside the ordinary course of our business in contractual obligations from September 30, 2020 through March 31, 2021.

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

For discussion of the Company's off-balance sheet financing arrangements at March 31, 2021, see Note 15 to our Condensed Consolidated Financial Statements included in Part I, Item 1 "Financial Statements" of this Quarterly Report on Form 10-Q. Depending on the extent to which the commitments or contingencies described in Note 15 occur, the effect on the Company's capital and net income could be significant.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

MARKET RISK

The Company derives a portion of its income from the excess of interest collected over interest paid. The rates of interest the Company earns on assets and pays on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, the Company's results of operations, like those of most financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of its assets and liabilities. The risk associated with changes in interest rates and the Company's ability to adapt to these changes is known as interest rate risk and is the Company's only significant "market" risk.

The Company monitors and measures its exposure to changes in interest rates in order to comply with applicable government regulations and risk policies established by the Board of Directors, and in order to preserve stockholder value. In monitoring interest rate risk, the Company analyzes assets and liabilities based on characteristics including size, coupon rate, repricing frequency, maturity date and likelihood of prepayment.

The Company's primary objective for its investment portfolio is to provide a source of liquidity for the Company. In addition, the investment portfolio may be used in the management of the Company's interest rate risk profile. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between minimizing risk while maximizing yield, the need to provide collateral for borrowings, and the need to fulfill the Company's asset/liability management goals.

The Company's cost of funds responds to changes in interest rates due to the relatively short-term nature of its wholesale deposit portfolio, and due to the relatively short-term nature of its borrowed funds. The Company believes that its growing portfolio of longer duration, low-cost deposits generated from its payments division provides a stable and profitable funding vehicle, but also subjects the Company to greater risk in a falling interest rate environment than it would otherwise have without this portfolio. This risk is due to the fact that, while asset yields may decrease in a falling interest rate environment, the Company cannot significantly reduce interest costs associated with these deposits, which thereby compress the Company's net interest margin.

The Board of Directors and relevant government regulations establish limits on the level of acceptable interest rate risk at the Company, to which management adheres. There can be no assurance, however, that, in the event of an adverse change in interest rates, the Company's efforts to limit interest rate risk will be successful.

Interest Rate Risk ("IRR")

Overview. The Company actively manages interest rate risk, as changes in market interest rates can have a significant impact on reported earnings. The Company's interest rate risk analysis is designed to compare income and economic valuation simulations in market scenarios designed to alter the direction, magnitude and speed of interest rate changes, as well as the slope of the yield curve. The Company does not currently engage in trading activities to control interest rate risk although it may do so in the future, if deemed necessary, to help manage interest rate risk.

Earnings at risk and economic value analysis. As a continuing part of its financial strategy, the Bank considers methods of managing an asset/liability mismatch consistent with maintaining acceptable levels of net interest income. In order to monitor interest rate risk, the Board of Directors has created an Asset/Liability Committee whose principal responsibilities are to assess the Bank's asset/liability mix and implement strategies that will enhance income while managing the Bank's vulnerability to changes in interest rates.

The Company uses two approaches to model interest rate risk: Earnings at Risk (“EAR analysis”) and Economic Value of Equity (“EVE analysis”). Under EAR analysis, net interest income is calculated for each interest rate scenario and compared to the net interest income forecast in the base case. EAR analysis measures the sensitivity of interest-sensitive earnings over a one-year minimum time horizon. The results are affected by projected rates, prepayments, caps and floors. Management exercises its best judgment in making assumptions regarding events that management can influence, such as non-contractual deposit re-pricing, as well as events outside of management’s control, such as customer behavior on loan and deposit activity and the effect that competition has on both lending and deposit pricing. These assumptions are subjective and, as a result, net interest income simulation results will differ from actual results due to the timing, magnitude, and frequency of interest rate changes, changes in market conditions, customer behavior and management strategies, among other factors. The Company performs various sensitivity analyses on assumptions of deposit attrition and deposit re-pricing, as well as market-implied forward rates and various likely and extreme interest rate scenarios, including rapid and gradual interest rate ramps, rate shocks and yield curve twists.

The EAR analysis used in the following table reflects the required analysis used no less than quarterly by management. It models basis point parallel shifts in market interest rates over the next one-year period. The following table shows the results of the scenarios as of March 31, 2021:

Net Sensitive Earnings at Risk

(Dollars in Thousands)	Book Value	Change in Interest Income/Expense for a given change in interest rates					
		Over / (Under) Base Case Parallel Shift					
		-100	Base	+100	+200	+300	+400
Total interest-sensitive income	8,977,458	250,419	264,575	321,081	378,148	436,165	494,270
Total interest-sensitive expense	721,961	819	960	2,196	3,481	4,831	6,244
Net interest-sensitive income	8,255,497	249,600	263,615	318,885	374,667	431,334	488,026
Percentage change from base	—	-5.3 %	— %	21.0 %	42.1 %	63.6 %	85.1 %

The EAR analysis reported at March 31, 2021, shows that Total Interest Sensitive Income will change more rapidly than Total Interest Sensitive Expense over the next year. IRR is a snapshot in time. The Company’s business and deposits are predictably cyclical on a weekly, monthly and yearly basis. The Company’s static IRR results could vary depending on which day of the week the month ends, primarily related to payroll processing and timing of when certain programs are prefunded and when the funds are received.

The Company believes that its growing portfolio of noninterest-bearing deposits provides a stable and profitable funding vehicle and a significant competitive advantage in a rising interest rate environment, as the Company’s cost of funds would likely remain low, with less of an increase in the cost of funds expected relative to many other banks.

Under EVE analysis, the economic value of financial assets, liabilities and off-balance sheet instruments is derived under each rate scenario. The economic value of equity is calculated as the difference between the estimated market value of assets and liabilities, net of the impact of off-balance sheet instruments.

The EVE analysis used in the following table reflects the required analysis used no less than quarterly by management. It models immediate basis point parallel shifts in market interest rates. The following table shows the results of the scenarios as March 31, 2021:

Economic Value Sensitivity

	Standard (Parallel Shift)				
	Economic Value of Equity at Risk %				
	-100	+100	+200	+300	+400
Percentage change from base	-15.1 %	13.0 %	23.7 %	33.0 %	41.6 %

The EVE at risk reported at March 31, 2021 shows that the economic value of equity position is expected to benefit from rising interest rates due to the large amount of noninterest-bearing funding.

Item 4. Controls and Procedures.

CONTROLS AND PROCEDURES

Any control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that its objectives will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Management, under the direction of its Chief Executive Officer and Chief Financial Officer, is responsible for maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "1934 Act") that are designed to ensure that information required to be disclosed in reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report on Form 10-Q, management evaluated the Company's disclosure controls and procedures. The evaluation was performed under the direction of the Company's Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of March 31, 2021, of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, at March 31, 2021, the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the three months ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Based on this evaluation, management concluded that, as of the end of the period covered by this report, there were no changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the fiscal second quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting except as set forth above.

META FINANCIAL GROUP, INC.
PART II - OTHER INFORMATION

FORM 10-Q

Item 1. Legal Proceedings

See "Legal Proceedings" under Note 15 to the "Notes to Condensed Consolidated Financial Statements" which is incorporated herein by reference.

Item 1A. Risk Factors

A description of our risk factors can be found in "Item 1A. Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020. There were no material changes to those risk factors during the six months ended March 31, 2021.

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

(a) None.

(b) None.

(c) Issuer Purchases of Equity Securities.

Meta's Board of Directors authorized a 7,500,000 share repurchase program on November 20, 2019 that is scheduled to expire on December 31, 2022. The share repurchase program became effective on November 21, 2019. The Company suspended its share repurchase activity in March 2020 and resumed repurchase activity during September 2020. The table below sets forth information regarding repurchases of our common stock during the fiscal 2021 second quarter.

Period	Total Number of Shares Repurchased ⁽¹⁾	Average Price Paid per Share ⁽¹⁾⁽²⁾	Total Number Of Shares Purchased As Part of Publicly Announced Plans Or Programs	Maximum Number Of Shares that may yet be Purchased Under the Plans or Programs
January 1 to 31	387,284	\$ 38.69	387,284	1,897,873
February 1 to 28	351,978	42.74	347,700	1,550,173
March 1 to 31	742	44.95	—	1,550,173
Total	<u>740,004</u>		<u>734,984</u>	

⁽¹⁾ A portion of these shares were acquired in satisfaction of the tax withholding obligations of holders of restricted stock unit awards, which vested during the quarter.

⁽²⁾ The average price paid per share is calculated on a trade date basis for all open market transactions and excludes commissions and other transaction expenses.

Item 6. Exhibits.

Exhibit Number	Description
31.1	Section 302 certification of Chief Executive Officer.
31.2	Section 302 certification of Chief Financial Officer.
32.1	Section 906 certification of Chief Executive Officer.
32.2	Section 906 certification of Chief Financial Officer.
101	The following financial information from the Company's Quarterly Report on Form 10-q for the quarter ended March 31, 2020 formatted in Inline Extensible Business Reporting Language (iXBRL) includes: (i) Cover Page, (ii) Condensed Consolidated Statements of Financial Condition, (iii) Condensed Consolidated Statements of Operations, (iv) Condensed Consolidated Statements of Comprehensive Income, (v) Condensed Consolidated Statements of Changes in Stockholders' Equity, (vi) Condensed Consolidated Statements of Cash Flows, and (vii) Notes to Condensed Consolidated Financial Statements, tagged in summary and in detail.
104	Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101).

META FINANCIAL GROUP, INC.

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.

META FINANCIAL GROUP, INC.

Date: May 6, 2021

By: /s/ Bradley C. Hanson
Bradley C. Hanson,
President, Chief Executive Officer and Director

Date: May 6, 2021

By: /s/ Glen W. Herrick
Glen W. Herrick, Executive Vice President
and Chief Financial Officer

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

I, Bradley C. Hanson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Meta Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Bradley C. Hanson
President and Chief Executive Officer

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

I, Glen W. Herrick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Meta Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Glen W. Herrick
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Meta Financial Group, Inc. (the "Company") for the quarterly period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley C. Hanson, the Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Bradley C. Hanson
Name: Bradley C. Hanson
President and Chief Executive Officer
May 6, 2021

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Meta Financial Group, Inc. (the "Company") for the quarterly period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glen W. Herrick, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Glen W. Herrick

Name: Glen W. Herrick

Executive Vice President and Chief Financial Officer

May 6, 2021