
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 June 30, 2020

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 August 3, 2020: |
|---|--------------------------------|
| Common Stock, \$.01 par value | 34,627,599 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)

| | June 30, 2020 | September 30, 2019 |
|---|---------------------|---------------------|
| | (Unaudited) | (Audited) |
| ASSETS | | |
| Cash and cash equivalents | \$ 3,108,141 | \$ 126,545 |
| Investment securities available for sale, at fair value | 825,579 | 889,947 |
| Mortgage-backed securities available for sale, at fair value | 338,250 | 382,546 |
| Investment securities held to maturity, at cost | 98,205 | 127,582 |
| Mortgage-backed securities held to maturity, at cost | 6,382 | 7,182 |
| Loans held for sale | 79,905 | 148,777 |
| Loans and leases | 3,502,646 | 3,658,847 |
| Allowance for loan and lease losses | (65,747) | (29,149) |
| Federal Reserve Bank and Federal Home Loan Bank stocks, at cost | 31,836 | 30,916 |
| Accrued interest receivable | 17,545 | 20,400 |
| Premises, furniture, and equipment, net | 40,361 | 45,932 |
| Rental equipment, net | 216,336 | 208,537 |
| Bank-owned life insurance | 91,697 | 89,827 |
| Foreclosed real estate and repossessed assets | 6,784 | 29,494 |
| Goodwill | 309,505 | 309,505 |
| Intangible assets | 43,974 | 52,810 |
| Prepaid assets | 6,806 | 9,476 |
| Deferred taxes | 15,944 | 18,884 |
| Other assets | 104,877 | 54,832 |
| Total assets | \$ 8,779,026 | \$ 6,182,890 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing checking | 6,537,809 | 2,358,010 |
| Interest-bearing checking | 187,003 | 185,768 |
| Savings deposits | 55,896 | 49,773 |
| Money market deposits | 40,811 | 76,911 |
| Time certificates of deposit | 25,000 | 109,275 |
| Wholesale deposits | 743,806 | 1,557,268 |
| Total deposits | 7,590,325 | 4,337,005 |
| Short-term borrowings | — | 646,019 |
| Long-term borrowings | 209,781 | 215,838 |
| Accrued interest payable | 4,332 | 9,414 |
| Accrued expenses and other liabilities | 144,679 | 130,656 |
| Total liabilities | 7,949,117 | 5,338,932 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, 3,000,000 shares authorized, no shares issued, none outstanding at June 30, 2020 and September 30, 2019, respectively | — | — |
| Common stock, \$0.01 par value; 90,000,000 shares authorized, 34,735,217 and 37,821,508 shares issued, 34,631,160 and 37,807,064 shares outstanding at June 30, 2020 and September 30, 2019, respectively | 346 | 378 |
| Common stock, Nonvoting, \$0.01 par value; 3,000,000 shares authorized, no shares issued, none outstanding at June 30, 2020 and September 30, 2019, respectively | — | — |
| Additional paid-in capital | 592,693 | 580,826 |
| Retained earnings | 228,500 | 252,813 |
| Accumulated other comprehensive income | 7,995 | 6,339 |
| Treasury stock, at cost, 104,057 and 14,444 common shares at June 30, 2020 and September 30, 2019, respectively | (3,412) | (445) |
| Total equity attributable to parent | 826,122 | 839,911 |
| Noncontrolling interest | 3,787 | 4,047 |
| Total stockholders' equity | 829,909 | 843,958 |
| Total liabilities and stockholders' equity | \$ 8,779,026 | \$ 6,182,890 |

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 June 30, | | Nine Months Ended June 30, | |
|---|-----------------------------|------------------|----------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Interest and dividend income: | | | | |
| Loans and leases, including fees | \$ 59,911 | \$ 69,732 | \$ 199,107 | \$ 203,900 |
| Mortgage-backed securities | 2,269 | 3,063 | 7,151 | 8,622 |
| Other investments | 5,226 | 8,837 | 18,176 | 32,380 |
| | 67,406 | 81,632 | 224,434 | 244,902 |
| Interest expense: | | | | |
| Deposits | 3,130 | 10,395 | 20,712 | 35,731 |
| FHLB advances and other borrowings | 2,139 | 4,269 | 9,197 | 10,581 |
| | 5,269 | 14,664 | 29,909 | 46,312 |
| Net interest income | 62,137 | 66,968 | 194,525 | 198,590 |
| Provision for loan and lease losses | 15,093 | 9,112 | 55,796 | 51,529 |
| Net interest income after provision for loan and lease losses | 47,044 | 57,856 | 138,729 | 147,061 |
| Noninterest income: | | | | |
| Refund transfer product fees | 4,595 | 6,697 | 33,726 | 38,559 |
| Tax advance product fees | 28 | 34 | 31,840 | 34,757 |
| Payment card and deposit fees | 21,302 | 21,377 | 65,957 | 66,855 |
| Other bank and deposit fees | 214 | 495 | 1,083 | 1,449 |
| Rental income | 11,231 | 9,386 | 34,682 | 30,167 |
| Gain on sale of securities available for sale, net (includes \$0 and \$440 reclassified from accumulated other comprehensive income (loss) for net gain (loss) on securities available for sale for the three months ended June 30, 2020 and 2019, respectively and \$0 and \$649 for the nine months ended June 30, 2020 and 2019, respectively) | — | 440 | — | 649 |
| Gain on divestitures | — | — | 19,275 | — |
| Gain on sale of other | 1,214 | 2,620 | 969 | 6,117 |
| Other income | 2,464 | 2,741 | 11,512 | 8,012 |
| Total noninterest income | 41,048 | 43,790 | 199,044 | 186,565 |
| Noninterest expense: | | | | |
| Compensation and benefits | 32,102 | 35,176 | 100,631 | 117,350 |
| Refund transfer product expense (income) | (139) | 287 | 7,482 | 7,478 |
| Tax advance product expense (Income) | (11) | 425 | 2,820 | 3,101 |
| Card processing | 7,128 | 4,613 | 19,432 | 18,670 |
| Occupancy and equipment expense | 6,502 | 7,136 | 20,169 | 20,806 |
| Operating lease equipment depreciation | 8,536 | 6,029 | 25,237 | 18,280 |
| Legal and consulting | 4,660 | 4,065 | 15,242 | 12,341 |
| Intangible amortization | 2,636 | 4,374 | 8,714 | 14,352 |
| Impairment expense | — | — | 750 | 9,660 |
| Other expense | 9,827 | 10,363 | 38,291 | 34,978 |
| Total noninterest expense | 71,241 | 72,468 | 238,768 | 257,016 |
| Income before income tax expense | 16,851 | 29,178 | 99,005 | 76,610 |
| Income tax expense (benefit) (includes \$0 and \$110 reclassified from accumulated other comprehensive income (loss) for the three months ended June 30, 2020 and 2019, respectively and \$0 and \$162 for the nine months ended June 30, 2020 and 2019, respectively) | (2,426) | (1,158) | 3,870 | (3,244) |
| Net income before noncontrolling interest | 19,277 | 30,336 | 95,135 | 79,854 |
| Net income attributable to noncontrolling interest | 1,087 | 1,045 | 3,573 | 3,045 |
| Net income attributable to parent | \$ 18,190 | \$ 29,291 | \$ 91,562 | \$ 76,809 |
| Earnings per common share | | | | |
| Basic | \$ 0.53 | \$ 0.75 | \$ 2.54 | \$ 1.96 |
| Diluted | \$ 0.53 | \$ 0.75 | \$ 2.54 | \$ 1.95 |

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 June 30, | | Nine Months Ended June 30, | |
|--|-----------------------------|-----------|----------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net income before noncontrolling interest | \$ 19,277 | \$ 30,336 | \$ 95,135 | \$ 79,854 |
| Other comprehensive income (loss): | | | | |
| Change in net unrealized (loss) gain on debt securities | 8,067 | 16,897 | 2,576 | 48,157 |
| Gain realized in net income | — | (440) | — | (649) |
| | 8,067 | 16,457 | 2,576 | 47,508 |
| Unrealized (loss) gain on currency translation | 295 | 221 | (269) | (24) |
| Deferred income tax effect | 2,021 | 4,106 | 651 | 11,590 |
| Total other comprehensive income | 6,341 | 12,572 | 1,656 | 35,894 |
| Total comprehensive income | 25,618 | 42,908 | 96,791 | 115,748 |
| Total comprehensive income attributable to noncontrolling interest | 1,087 | 1,045 | 3,573 | 3,045 |
| Comprehensive income attributable to parent | \$ 24,531 | \$ 41,863 | \$ 93,218 | \$ 112,703 |

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 June 30, 2020 | | | | | | | | |
| Balance, March 31, 2020 | \$ 346 | \$ 590,682 | \$ 212,027 | \$ 1,654 | \$ (3,397) | \$ 801,312 | \$ 3,762 | \$ 805,074 |
| Cash dividends declared on common stock (\$0.05 per share) | — | — | (1,717) | — | — | (1,717) | — | (1,717) |
| Issuance of common shares due to exercise of stock options | — | 88 | — | — | — | 88 | — | 88 |
| Shares repurchased | — | — | — | — | (15) | (15) | — | (15) |
| Stock compensation | — | 1,923 | — | — | — | 1,923 | — | 1,923 |
| Total other comprehensive income | — | — | — | 6,341 | — | 6,341 | — | 6,341 |
| Net income | — | — | 18,190 | — | — | 18,190 | 1,087 | 19,277 |
| Net investment by (distribution to) noncontrolling interests | — | — | — | — | — | — | (1,062) | (1,062) |
| Balance, June 30, 2020 | <u>\$ 346</u> | <u>\$ 592,693</u> | <u>\$ 228,500</u> | <u>\$ 7,995</u> | <u>\$ (3,412)</u> | <u>\$ 826,122</u> | <u>\$ 3,787</u> | <u>\$ 829,909</u> |
| Nine Months Ended June 30, 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 (\$0.15 per share) | — | — | (5,370) | — | — | (5,370) | — | (5,370) |
| Issuance of common shares due to exercise of stock options | — | 293 | — | — | — | 293 | — | 293 |
| 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) | — | (2,967) | (113,472) | — | (113,472) |
| Stock compensation | — | 8,320 | — | — | — | 8,320 | — | 8,320 |
| Total other comprehensive income | — | — | — | 1,656 | — | 1,656 | — | 1,656 |
| Net income | — | — | 91,562 | — | — | 91,562 | 3,573 | 95,135 |
| Net investment by (distribution to) noncontrolling interests | — | — | — | — | — | — | (3,833) | (3,833) |
| Balance, June 30, 2020 | <u>\$ 346</u> | <u>\$ 592,693</u> | <u>\$ 228,500</u> | <u>\$ 7,995</u> | <u>\$ (3,412)</u> | <u>\$ 826,122</u> | <u>\$ 3,787</u> | <u>\$ 829,909</u> |

(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) | Treasury Stock | Total Stockholders' Equity | Noncontrolling Interest | Total Equity |
| Three Months Ended June 30, 2019 | | | | | | | | |
| Balance, March 31, 2019 | \$ 395 | \$ 576,406 | \$ 258,600 | \$ (10,264) | \$ (4,956) | \$ 820,181 | \$ 3,528 | \$ 823,709 |
| Cash dividends declared on common stock (\$0.05 per share) | — | — | (1,931) | — | — | (1,931) | — | (1,931) |
| Issuance of common shares due to exercise of stock options | — | 37 | — | — | — | 37 | — | 37 |
| Shares repurchases | (16) | 16 | (43,000) | — | (13) | (43,013) | — | (43,013) |
| Retirement of treasury stock | — | — | (4,956) | — | 4,956 | — | — | — |
| Stock compensation | — | 2,256 | — | — | — | 2,256 | — | 2,256 |
| Total other comprehensive income | — | — | — | 12,572 | — | 12,572 | — | 12,572 |
| Net income | — | — | 29,291 | — | — | 29,291 | 1,045 | 30,336 |
| Net investment by (distribution to) noncontrolling interests | — | — | — | — | — | — | (1,065) | (1,065) |
| Balance, June 30, 2019 | \$ 379 | \$ 578,715 | \$ 238,004 | \$ 2,308 | \$ (13) | \$ 819,393 | \$ 3,508 | \$ 822,901 |
| Nine Months Ended June 30, 2019 | | | | | | | | |
| Balance, September 30, 2018 | \$ 393 | \$ 565,811 | \$ 213,048 | \$ (33,111) | \$ (1,989) | \$ 744,152 | \$ 3,574 | \$ 747,726 |
| Adoption of Accounting Standards Update 2014-09, net of income taxes | — | — | 1,502 | — | — | 1,502 | — | 1,502 |
| Adoption of Accounting Standards Update 2016-01, net of income taxes | — | — | 475 | (475) | — | — | — | — |
| Cash dividends declared on common stock (\$0.15 per share) | — | — | (5,874) | — | — | (5,874) | — | (5,874) |
| Issuance of common shares due to exercise of stock options | — | 92 | — | — | — | 92 | — | 92 |
| Issuance of common shares due to restricted stock | 3 | — | — | — | — | 3 | — | 3 |
| Issuance of common shares due to ESOP | — | 2,010 | — | — | — | 2,010 | — | 2,010 |
| Shares repurchased | (17) | 17 | (43,000) | — | (2,980) | (45,980) | — | (45,980) |
| Retirement of treasury stock | — | — | (4,956) | — | 4,956 | — | — | — |
| Stock compensation | — | 10,785 | — | — | — | 10,785 | — | 10,785 |
| Total other comprehensive income | — | — | — | 35,894 | — | 35,894 | — | 35,894 |
| Net income | — | — | 76,809 | — | — | 76,809 | 3,045 | 79,854 |
| Net investment by (distribution to) noncontrolling interests | — | — | — | — | — | — | (3,111) | (3,111) |
| Balance, June 30, 2019 | \$ 379 | \$ 578,715 | \$ 238,004 | \$ 2,308 | \$ (13) | \$ 819,393 | \$ 3,508 | \$ 822,901 |

See Notes to Condensed Consolidated Financial Statements.

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

| (Dollars in Thousands) | Nine Months Ended June 30, | |
|--|----------------------------|-----------|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Net income before noncontrolling interest | \$ 95,135 | \$ 79,854 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation, amortization and accretion, net | 46,123 | 41,290 |
| Stock compensation | 8,320 | 10,785 |
| Provision (recovery): | | |
| Loan and lease losses | 55,796 | 51,529 |
| Deferred taxes | 2,289 | (14,468) |
| Loans held for sale: | | |
| Originations | (63,396) | (104,121) |
| Purchases | — | (12,643) |
| Proceeds from sales | 168,814 | 95,663 |
| Net change | 22,612 | 15,925 |
| Fair value adjustment of foreclosed real estate | 568 | 139 |
| Net realized (gain) loss: | | |
| Other assets | 361 | (54) |
| Divestitures | (19,275) | — |
| Foreclosed real estate and repossessed assets | 5,039 | 185 |
| Securities available for sale, net | — | (649) |
| Loans held for sale | (4,069) | (3,650) |
| Leases receivable and equipment | (2,302) | (2,598) |
| Net change: | | |
| Other assets | (20,623) | (15,957) |
| Deposits held for sale | 1,535 | — |
| Accrued interest payable | (5,082) | 4,556 |
| Accrued expenses and other liabilities | (10,218) | 18,785 |
| Accrued interest receivable | 1,738 | 2,294 |
| Change in bank-owned life insurance value | (1,870) | (1,900) |
| Impairment on assets held for sale | 242 | — |
| Impairment on rental equipment | — | 6,194 |
| Impairment of intangibles | — | 111 |
| Net cash provided by operating activities | 281,737 | 171,270 |
| Cash flows from investing activities: | | |
| Securities available for sale: | | |
| Purchases | (60,024) | (297,548) |
| Proceeds from sales | — | 720,376 |
| Proceeds from maturities and principal repayments | 166,477 | 110,810 |
| Securities held to maturity: | | |
| Proceeds from maturities and principal repayments | 28,642 | 24,809 |
| Loans and leases: | | |
| Purchases | (120,406) | (219,551) |
| Proceeds from sales | 3,099 | 13,069 |
| Net change | (73,360) | (530,215) |
| Proceeds from sales of foreclosed real estate and repossessed assets | 23,086 | 1,905 |
| Federal Reserve Bank and Federal Home Loan Bank stock: | | |
| Purchases | (472,000) | (606,756) |
| Redemption | 471,080 | 612,920 |
| Rental equipment: | | |
| Purchases | (48,279) | (111,150) |
| Proceeds from sales | 13,262 | 6,551 |
| Net change | 2,625 | 1,868 |
| Premises, furniture, and equipment: | | |
| Purchases | (8,573) | (11,944) |
| Proceeds from sales | — | 101 |
| Proceeds from divestitures | 3,498 | — |
| Net cash (used in) investing activities | (70,873) | (284,755) |

Cash flows from financing activities:

| | | |
|--|--------------|------------|
| Net change: | | |
| Checking, savings, and money market deposits | 4,440,032 | 408,951 |
| Time certificates of deposit | (84,285) | (159,611) |
| Wholesale deposits | (813,495) | 96,763 |
| FHLB and other borrowings | (165,000) | 110,000 |
| Federal funds | (477,000) | (287,000) |
| Securities sold under agreements to repurchase | (4,019) | (36) |
| Distribution to noncontrolling interests | (3,833) | (3,111) |
| Proceeds from other liabilities | 1,633 | 7,525 |
| Principal payments: | | |
| Other liabilities | (5,977) | (9,404) |
| Capital lease obligations | (1,729) | (64) |
| Cash dividends paid | (5,370) | (5,874) |
| Issuance of common stock due to ESOP | 3,220 | 2,010 |
| Issuance of common stock due to restricted stock | 2 | 3 |
| Proceeds from exercise of stock options and issuance of common stock | 293 | 92 |
| Shares repurchased | (113,472) | (45,980) |
| Net cash (used in) provided by financing activities | 2,771,000 | 114,264 |
| Effect of exchange rate changes on cash | (268) | (24) |
| Net change in cash and cash equivalents | 2,981,596 | 755 |
| Cash and cash equivalents at beginning of fiscal year | 126,545 | 99,977 |
| Cash and cash equivalents at end of fiscal period | \$ 3,108,141 | \$ 100,732 |

| (Dollars in Thousands) | Nine Months Ended June 30, | |
|--|----------------------------|-----------|
| | 2020 | 2019 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period for: | | |
| Interest | \$ 34,991 | \$ 41,756 |
| Income taxes | 5,775 | (247) |
| Franchise taxes | 231 | 184 |
| Other taxes | 492 | 539 |
| Supplemental schedule of non-cash investing activities | | |
| Transfers | | |
| Loans and leases to foreclosed real estate and repossessed assets | 5,983 | 105 |
| Loans and leases to rental equipment | (573) | 229 |
| Rental equipment to loan and leases | 691 | — |
| Loans and leases to held for sale | 325,092 | 39,452 |
| Other assets to held for sale | 7,858 | — |
| Deposits to held for sale | 288,975 | — |
| Recognition of operating lease ROU assets, net of remeasurements | 27,019 | — |
| Purchases/sales of securities accrued, not settled | | |
| Purchases - available for sale | — | 1,721 |
| Short- and long-term borrowings transferred from other liabilities | — | 20,026 |

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, 2019 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 26, 2019. 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 nine months ended June 30, 2020 are not necessarily indicative of the results expected for the fiscal year ending September 30, 2020.

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, 2019 remain substantially unchanged with the exception of the policies impacted by the adoption of noted ASUs below. Certain accounting policies were impacted by the events of the novel Coronavirus ("COVID-19"), and are discussed in Note 3. Significant Events.

Adopted ASUs

Leases -- The Company adopted ASU 2016-02, *Leases (Topic 842)*, and subsequent related updates (collectively ASU 2016-02) on October 1, 2019, which requires lessees to recognize most leases on their balance sheet. Lessor accounting is largely unchanged. The ASU requires both quantitative and qualitative disclosures regarding key information about lease arrangements from both lessees and lessors. The Company elected the effective date transition method utilizing the adoption date as the first date of application of the revised guidance. As a result, prior period amounts have not been restated. Upon adoption, the Company elected certain transitional practical expedients offered through the guidance, including the 'package of practical expedients' whereby it did not reassess (i) whether any expired or existing contracts contain leases, (ii) the lease classification of any expired or existing leases, and (iii) initial direct costs for any existing leases, which resulted in the Company not recognizing a cumulative effect adjustment to retained earnings. Management evaluated Meta's leasing contracts and activities and developed methodologies and processes to estimate and account for the right-of-use ("ROU") assets and lease liabilities for building leases based on the present value of future lease payments. On October 1, 2019, the Company recorded ROU assets and lease liabilities totaling \$27.4 million and \$28.6 million, respectively. The impact to capital ratios as a result of increased risk-weighted assets was immaterial. The adoption of this guidance did not result in a material change to lessee expense recognition. The changes to lessor accounting, as well as change in customer behavior driven by the adoption of these ASUs, impact the results of Meta's lease financing businesses, including earlier recognition of expense due to a narrower definition of initial direct costs.

As a lessee, the Company enters into contracts to lease real estate, information technology equipment and other various types of equipment. Leases that transfer substantially all of the benefits and risks of ownership to the Company are classified as finance leases, while all others are classified as operating leases. At lease commencement for buildings, a lease liability and ROU asset are calculated and recognized on both types of leases. The lease liability is equal to the present value of the future minimum lease payments. The ROU asset is equal to the lease liability, plus any initial direct costs and prepaid lease payments, less any lessor incentives received. Operating lease ROU assets are included in other assets and finance lease ROU assets are included in premises and equipment, net. The Company uses the appropriate term Federal Home Loan Bank ("FHLB") rate to determine the discount rate for the present value calculation of future minimum lease payments when an implicit rate is not known for a given lease. The lease term used in the calculation includes any options to extend that the Company is reasonably certain to exercise. The Company has elected to not recognize assets or liabilities on its balance sheet related to short-term leases.

Subsequent to lease commencement, lease liabilities recorded for finance leases are measured using the effective interest rate method and the related ROU assets are amortized on a straight-line basis over the lease term. Interest expense and amortization expense are recorded separately on the Condensed Consolidated Statements of Operations in interest expense on borrowings and occupancy and equipment noninterest expense, respectively. At June 30, 2020, the Company had no finance lease ROU assets or lease liabilities. For operating leases, total lease cost is comprised of lease expense, short-term lease cost, variable lease cost and sublease income. Lease expense includes future minimum lease payments, which are recognized on a straight-line basis over the lease term, as well as common area maintenance charges, real estate taxes, insurance and other expenses, where applicable, which are expensed as incurred. Total lease cost for operating leases is recorded in occupancy and equipment noninterest expense. See Note 11. Operating Lease Right-of-Use Assets and Liabilities for further information.

The Company also adopted the following ASUs on October 1, 2019, none of which had a material impact on the Company's Condensed Consolidated Financial Statements:

- ASU 2018-02, *Income Statement -- Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The Company elected to not reclassify tax effects stranded in accumulated other comprehensive income.
- ASU 2018-09, *Codification Improvements*.

ASUs to be Adopted

ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU, along with subsequent ASUs published as clarifications to Topic 326, requires entities to replace the incurred loss impairment methodology with a methodology reflecting expected credit losses with considerations for a broader range of reasonable and supportable information to substantiate credit loss estimates and applies to loans, net investments in leases, debt securities, certain financial assets not accounted for at fair value through net income, and certain off-balance sheet credit exposures. This ASU is effective for the Company on October 1, 2020 and will be adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company's implementation process includes loss forecasting model development, evaluation of technical accounting topics, updates to the Company's allowance documentation, reporting processes and related internal controls, and operational readiness for the adoption of this ASU.

The Company is utilizing a third-party vendor software for its credit loss estimate and is in process of reviewing model assumptions and other validation tasks. The Company is running its key processes parallel with current incurred loss models and will continue to refine its estimates throughout 2020 as CECL models are implemented and results are vetted.

The amount of the change in the Company's allowance for loan and lease losses will be impacted by the portfolio composition and credit quality at the adoption date as well as economic conditions and forecasts at that time. At adoption, the Company expects to have a cumulative-effect adjustment to retained earnings for the change in the allowance for loan and lease losses, which will impact capital. Federal banking regulations permit institutions to limit the initial capital impact of this ASU by allowing a deferral of two years followed by three-year transition period to phase out the cumulative benefit to regulatory capital. An increase in the Company's allowance for loan and lease losses will result in a reduction to regulatory capital amounts and ratios; however, at this point of implementation, the Company is unable to provide a more precise estimate of the impact as results are still being vetted, including validation of model assumptions and estimation techniques as well as the build-out of operational and control structure supporting the end-to-end process.

Other Upcoming ASUs - Refer to the Company's most recently audited consolidated financial statements for the year ended September 30, 2019 for the latest update on other ASUs relevant to the Company and not yet adopted at June 30, 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. In March 2020, the U.S. declared a national emergency and imposed travel restrictions, limitations of business operations in certain industries, and other efforts in order to impede the spread of COVID-19. Since the onset of this pandemic, macroeconomic conditions and markets have significantly deteriorated. While the process of phased re-openings of the economies of many states began in May and June, COVID-19 continues to have a significant effect on individuals, businesses and the economy. 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.

Accommodations to Borrowers

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 in the modification agreement.

Through June 30, 2020, the Company has granted deferral payments on a total of \$352.1 million of loan, lease and rental equipment balances. As of June 30, 2020, \$292.2 million of those balances were still in their deferment period. In addition, the Company has made other COVID-19 related modifications on a total of \$52.9 million, of which \$34.6 million are still active as of June 30, 2020. The majority of the other modifications were related to adjusting the type or amount of the customer's payments.

The table below presents the outstanding balance of active COVID-19 related modifications by type and category as of June 30, 2020.

| (Dollars in Thousands) | June 30, 2020 | |
|---|---------------------------------------|---|
| | COVID-19 Related Payment Deferrals | Other COVID-19 Related Modifications |
| National Lending | | |
| Term lending | \$ 88,227 | \$ — |
| Asset based lending | 324 | 17,333 |
| Factoring | 3,564 | 17,295 |
| Lease financing | 27,310 | — |
| Insurance premium finance | 5,505 | — |
| SBA/USDA | 7,724 | — |
| Other commercial finance | 74 | — |
| Commercial finance | 132,728 | 34,628 |
| Consumer credit products | 462 | — |
| Other consumer finance | 6,855 | — |
| Consumer finance | 7,317 | — |
| Total National Lending | 140,045 | 34,628 |
| Community Banking | | |
| Commercial real estate and operating | 148,838 | — |
| Consumer one-to-four family real estate and other | 2,534 | — |
| Total Community Banking | 151,372 | — |
| Total loans and leases | 291,417 | 34,628 |
| Rental equipment | 819 | — |
| Total COVID-19 related modifications | \$ 292,236 | \$ 34,628 |

Financial Impact

The Company recorded \$15.1 million in provision expense during the three months ended June 30, 2020, compared to \$9.1 million for the comparable period in the prior year. The increase in provision was primarily within the remaining community banking and commercial finance portfolios and was attributable to the increased stress that the hospitality loans and small ticket loan and lease relationships have experienced stemming from the ongoing uncertainty related to the COVID-19 pandemic. Loans and leases that received short-term payment deferrals were also analyzed and additional provision was applied as appropriate. As the Company obtains additional information on the macroeconomic reactions and impact on borrowers, the provision estimate will be revised as necessary in future periods to maintain an appropriate and supportable level. The Company's approach to estimating the COVID-19 impact on credit quality is presented in Note 6. Loans and Leases, Net.

The Company's interest and fee income could be reduced as a result of COVID-19. While interest and fees will continue to accrue in accordance with GAAP, a decrease in loan demand could lead to slower loan growth or even a contraction in loan balances in the near term. In addition, should eventual credit losses emerge, interest income and fees accrued may need to be reversed in future periods. At this time, the Company is unable to project the materiality of such an impact. While the Company has seen a slight contraction in loan balances in some categories during the third quarter of fiscal 2020, such as asset-based lending and factoring, other categories have continued to grow. No additional significant financial impacts directly related to COVID-19 were identified for the nine months ended June 30, 2020.

Asset Valuation

In June 2020, the Company assessed its financial assets potentially impacted by the deteriorating market conditions due to the COVID-19 outbreak occurring globally. Included in the assessment were the loan and lease portfolios, other-than-temporary impairment ("OTTI") in investment portfolios, collectability of operating lease payments, goodwill impairment and intangible asset impairment. Based on the known events and circumstances at the time of the assessment, the Company has determined no impairment is needed as of June 30, 2020, other than the provision for loan and lease losses noted above. The Company will continue to observe and monitor the pandemic-related circumstances to determine whether further impairment assessments are needed in future periods. In the event it is determined that all or a portion of its goodwill or intangible assets is impaired, a non-cash charge for the amount of such impairment would be recorded to earnings, but would not impact regulatory capital.

NOTE 4. DIVESTITURES

On February 29, 2020 (the "Closing Date"), the Company sold MetaBank'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 all of the Community Bank's deposits, branch locations, fixed assets and employees and a portion of the Community Bank's loan portfolio. The Company has summarized the results of the transaction below.

| (Dollars in Thousands) | Fair Value at February 29, 2020 |
|-----------------------------------|------------------------------------|
| Cash and cash equivalents | \$ 2,504 |
| Loans | 268,584 |
| Premises, furniture and equipment | 4,945 |
| Other assets | 1,250 |
| Total assets | \$ 277,283 |
| Deposits | \$ 290,493 |
| Borrowings | — |
| Other liabilities | 1,720 |
| Total liabilities | \$ 292,213 |
| Net assets | \$ (14,930) |
| Purchase price | 4,345 |
| Gain on sale | \$ 19,275 |

The \$19.3 million gain on sale (before tax) was recognized within noninterest income on the Company's Condensed Consolidated Statement of Operations for the three and nine months ended June 30, 2020. In addition to what's reflected above, the Company also recognized \$0.6 million, \$0.2 million, \$0.8 million, and \$0.3 million in legal, IT, consulting, and nonrecurring compensation expenses related to the sale of the Community Bank division, respectively.

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 \$1.4 million in servicing fee expense during the nine months ended June 30, 2020.

On August 4, 2020, the Company sold an additional \$58.6 million of the retained Community Bank portfolio to Central Bank. The sale did not result in any material gain to the Company. The loans included in the sale were classified as held for sale for the quarter ended June 30, 2020. See Note 6. Loans and Leases, Net, and Note 19. Subsequent Events, for additional information.

The Company has summarized the Community Bank division results for the three and nine months ended June 30, 2020 below.

| (Dollars in Thousands) | Community Bank Sold ⁽¹⁾ | Community Bank Retained ⁽²⁾ | Total Community Bank |
|--|---------------------------------------|---|----------------------|
| Three Months Ended June 30, 2020 | | | |
| Net interest income | \$ — | \$ 7,955 | \$ 7,955 |
| (Reversal) Provision for loan and lease losses | (491) | 7,547 | 7,056 |
| Noninterest income | — | 11 | 11 |
| Noninterest expense | 39 | 1,562 | 1,601 |
| Net income (loss) before income tax expense | \$ 452 | \$ (1,143) | \$ (691) |
| Nine Months Ended June 30, 2020 | | | |
| Net interest income | \$ 2,512 | \$ 25,348 | \$ 27,860 |
| (Reversal) Provision for loan and lease losses | (2,241) | 14,521 | 12,280 |
| Noninterest income | 19,694 | (3,473) | 16,221 |
| Noninterest expense | 4,955 | 5,113 | 10,068 |
| Net income (loss) before income tax expense | \$ 19,492 | \$ 2,241 | \$ 21,733 |

⁽¹⁾ Reflects the activity of the assets and liabilities included in the disposal of the Community Bank division through June 30, 2020.

⁽²⁾ Reflects the activity of the retained Community Bank loan portfolio as of June 30, 2020.

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) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|---------------------|---------------------------|------------------------------|---------------------|
| At June 30, 2020 | | | | |
| Debt securities AFS | | | | |
| SBA securities | \$ 165,299 | \$ 5,109 | \$ (141) | \$ 170,267 |
| Obligations of states and political subdivisions | 826 | 17 | — | 843 |
| Non-bank qualified obligations of states and political subdivisions | 327,423 | 4,803 | (902) | 331,324 |
| Asset-backed securities | 334,075 | 1,575 | (12,505) | 323,145 |
| Mortgage-backed securities | 325,025 | 13,381 | (156) | 338,250 |
| Total debt securities AFS | <u>\$ 1,152,648</u> | <u>\$ 24,885</u> | <u>\$ (13,704)</u> | <u>\$ 1,163,829</u> |

| (Dollars in Thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|---------------------|---------------------------|------------------------------|---------------------|
| At September 30, 2019 | | | | |
| Debt securities AFS | | | | |
| SBA securities | \$ 182,327 | \$ 3,655 | \$ — | \$ 185,982 |
| Obligations of states and political subdivisions | 858 | 16 | — | 874 |
| Non-bank qualified obligations of states and political subdivisions | 396,430 | 5,030 | (903) | 400,557 |
| Asset-backed securities | 305,603 | 262 | (3,331) | 302,534 |
| Mortgage-backed securities | 378,670 | 5,731 | (1,855) | 382,546 |
| Total debt securities AFS | <u>\$ 1,263,888</u> | <u>\$ 14,694</u> | <u>\$ (6,089)</u> | <u>\$ 1,272,493</u> |

| (Dollars in Thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|-------------------|------------------------|---------------------------|-------------------|
| At June 30, 2020 | | | | |
| Debt securities HTM | | | | |
| Non-bank qualified obligations of states and political subdivisions | \$ 98,205 | \$ 133 | \$ (1,016) | \$ 97,322 |
| Mortgage-backed securities | 6,382 | 128 | — | 6,510 |
| Total debt securities HTM | \$ 104,587 | \$ 261 | \$ (1,016) | \$ 103,832 |

| (Dollars in Thousands) | Amortized Cost | Gross Unrealized Gain | Gross Unrealized (Losses) | Fair Value |
|---|-------------------|-----------------------|---------------------------|-------------------|
| At September 30, 2019 | | | | |
| Debt securities HTM | | | | |
| Non-bank qualified obligations of states and political subdivisions | \$ 127,582 | \$ 108 | \$ (1,403) | \$ 126,287 |
| Mortgage-backed securities | 7,182 | 14 | (13) | 7,183 |
| Total debt securities HTM | \$ 134,764 | \$ 122 | \$ (1,416) | \$ 133,470 |

Management has implemented processes to identify securities that could potentially have a credit impairment that is other-than-temporary. This process can include, but is not limited to, evaluating the length of time and extent to which the fair value has been less than the amortized cost basis, reviewing available information regarding the financial position of the issuer, interest and dividend payment status, monitoring the rating of the security, monitoring changes in value, and projecting cash flows. Management also determines whether the Company intends to sell a security or whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity. To the extent the Company determines that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

For all securities considered temporarily impaired, the Company does not intend to sell these securities, and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost, which may occur at maturity. The Company believes collection will occur for all principal and interest due on all investments with amortized cost in excess of fair value and considered only temporarily impaired.

GAAP requires that, at acquisition, an enterprise classify debt securities into one of three categories: AFS, HTM or trading. AFS securities are carried at fair value on the consolidated statements of financial condition, and unrealized holding gains and losses are excluded from earnings and recognized as a separate component of equity in accumulated other comprehensive income ("AOCI"). HTM debt securities are measured at amortized cost. Both AFS and HTM are subject to review for other-than-temporary impairment. The Company had no trading securities at June 30, 2020 or September 30, 2019.

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

| | LESS THAN 12 MONTHS | | OVER 12 MONTHS | | TOTAL | |
|---|---------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| | Fair Value | Unrealized (Losses) | Fair Value | Unrealized (Losses) | Fair Value | Unrealized (Losses) |
| (Dollars in Thousands) | | | | | | |
| At June 30, 2020 | | | | | | |
| Debt securities AFS | | | | | | |
| SBA securities | \$ 34,402 | \$ (141) | \$ — | \$ — | \$ 34,402 | \$ (141) |
| Non-bank qualified obligations of states and political subdivisions | 46,805 | (279) | 40,425 | (623) | 87,230 | (902) |
| Asset-backed securities | 103,915 | (2,423) | 178,986 | (10,082) | 282,901 | (12,505) |
| Mortgage-backed securities | 32,214 | (156) | — | — | 32,214 | (156) |
| Total debt securities AFS | \$ 217,336 | \$ (2,999) | \$ 219,411 | \$ (10,705) | \$ 436,747 | \$ (13,704) |

| | LESS THAN 12 MONTHS | | OVER 12 MONTHS | | TOTAL | |
|---|---------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| | Fair Value | Unrealized (Losses) | Fair Value | Unrealized (Losses) | Fair Value | Unrealized (Losses) |
| (Dollars in Thousands) | | | | | | |
| At September 30, 2019 | | | | | | |
| Debt securities AFS | | | | | | |
| SBA securities | \$ 10,262 | \$ — | \$ — | \$ — | \$ 10,262 | \$ — |
| Non-bank qualified obligations of states and political subdivisions | 66,326 | (177) | 55,428 | (726) | 121,754 | (903) |
| Asset-backed securities | 158,176 | (1,823) | 93,259 | (1,508) | 251,435 | (3,331) |
| Mortgage-backed securities | 1,713 | (1) | 89,634 | (1,854) | 91,347 | (1,855) |
| Total debt securities AFS | \$ 236,477 | \$ (2,001) | \$ 238,321 | \$ (4,088) | \$ 474,798 | \$ (6,089) |

| | LESS THAN 12 MONTHS | | OVER 12 MONTHS | | TOTAL | |
|---|---------------------|---------------------|------------------|---------------------|------------------|---------------------|
| | Fair Value | Unrealized (Losses) | Fair Value | Unrealized (Losses) | Fair Value | Unrealized (Losses) |
| (Dollars in Thousands) | | | | | | |
| At June 30, 2020 | | | | | | |
| Debt securities HTM | | | | | | |
| Non-bank qualified obligations of states and political subdivisions | \$ — | \$ — | \$ 83,207 | \$ (1,016) | \$ 83,207 | \$ (1,016) |
| Total debt securities HTM | \$ — | \$ — | \$ 83,207 | \$ (1,016) | \$ 83,207 | \$ (1,016) |

| | LESS THAN 12 MONTHS | | OVER 12 MONTHS | | TOTAL | |
|---|---------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| | Fair Value | Unrealized (Losses) | Fair Value | Unrealized (Losses) | Fair Value | Unrealized (Losses) |
| (Dollars in Thousands) | | | | | | |
| At September 30, 2019 | | | | | | |
| Debt securities HTM | | | | | | |
| Non-bank qualified obligations of states and political subdivisions | \$ 5,967 | \$ (6) | \$ 109,368 | \$ (1,397) | \$ 115,335 | \$ (1,403) |
| Mortgage-backed securities | 1,471 | — | 1,803 | (13) | 3,274 | (13) |
| Total debt securities HTM | \$ 7,438 | \$ (6) | \$ 111,171 | \$ (1,410) | \$ 118,609 | \$ (1,416) |

At June 30, 2020, the investment portfolio included securities with current unrealized losses that have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Because (i) the declines in fair value were due to changes in market interest rates, not in estimated cash flows, (ii) the Company does not intend or has not made a decision to sell these securities and (iii) it is not more likely than not that the Company will be required to sell the securities before recovery of their amortized cost basis, which may occur at maturity, no other-than-temporary impairment was recorded at June 30, 2020.

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.

Securities AFS at Fair Value

(Dollars in Thousands)

| | Amortized Cost | Fair Value |
|--|---------------------|---------------------|
| At June 30, 2020 | | |
| Due in one year or less | \$ 1,130 | \$ 1,133 |
| Due after one year through five years | 12,688 | 13,205 |
| Due after five years through ten years | 44,891 | 47,174 |
| Due after ten years | 768,914 | 764,067 |
| | <u>827,623</u> | <u>825,579</u> |
| Mortgage-backed securities | 325,025 | 338,250 |
| Total securities AFS, at fair value | <u>\$ 1,152,648</u> | <u>\$ 1,163,829</u> |

(Dollars in Thousands)

| | Amortized Cost | Fair Value |
|--|---------------------|---------------------|
| At September 30, 2019 | | |
| Due in one year or less | \$ — | \$ — |
| Due after one year through five years | 16,749 | 17,143 |
| Due after five years through ten years | 50,263 | 51,840 |
| Due after ten years | 818,206 | 820,964 |
| | <u>885,218</u> | <u>889,947</u> |
| Mortgage-backed securities | 378,670 | 382,546 |
| Total securities AFS, at fair value | <u>\$ 1,263,888</u> | <u>\$ 1,272,493</u> |

Securities HTM at Fair Value

(Dollars in Thousands)

| | Amortized Cost | Fair Value |
|-------------------------------|-------------------|-------------------|
| At June 30, 2020 | | |
| Due after ten years | \$ 98,205 | \$ 97,322 |
| | <u>98,205</u> | <u>97,322</u> |
| Mortgage-backed securities | 6,382 | 6,510 |
| Total securities HTM, at cost | <u>\$ 104,587</u> | <u>\$ 103,832</u> |

| (Dollars in Thousands) | Amortized Cost | Fair Value |
|-------------------------------|----------------|------------|
| At September 30, 2019 | | |
| Due after ten years | \$ 127,582 | \$ 126,287 |
| | 127,582 | 126,287 |
| Mortgage-backed securities | 7,182 | 7,183 |
| Total securities HTM, at cost | \$ 134,764 | \$ 133,470 |

Other investments, at cost, include equity securities without a readily determinable fair value, which are included in other assets on the consolidated statement of financial condition, and shares of stock in the Federal Reserve Bank ("FRB") of Minneapolis and the FHLB of Des Moines. Equity securities without a readily determinable fair value totaled \$11.0 million at June 30, 2020 and \$6.5 million at September 30, 2019. Upon conversion to a national bank on April 1, 2020, the Company's wholly-owned subsidiary, MetaBank, 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 MetaBank at June 30, 2020 totaled \$20.0 million. These equity securities are 'restricted' in that they can only be owned by member banks. FHLB of Des Moines stock held by MetaBank at June 30, 2020 and September 30, 2019 totaled \$11.9 million and \$30.9 million, respectively. The decrease in FHLB stock directly correlates with lower short-term borrowings balances at June 30, 2020 compared to September 30, 2019. The Company's wholly-owned subsidiary, MetaBank, is required by federal law to maintain FHLB stock as a member of FHLB of Des Moines. 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. No impairment was recognized for such investments for the nine months ended June 30, 2020.

NOTE 6. LOANS AND LEASES, NET

Loans and leases consist of the following:

| (Dollars in Thousands) | June 30, 2020 | September 30, 2019 |
|---|---------------------|---------------------|
| National Lending | | |
| Term lending ⁽¹⁾ | \$ 738,454 | \$ 641,742 |
| Asset based lending ⁽¹⁾ | 181,130 | 250,465 |
| Factoring | 206,361 | 296,507 |
| Lease financing ⁽¹⁾ | 264,988 | 177,915 |
| Insurance premium finance | 359,147 | 361,105 |
| SBA/USDA | 308,611 | 88,831 |
| Other commercial finance | 100,214 | 99,665 |
| Commercial finance | 2,158,905 | 1,916,230 |
| Consumer credit products | 102,808 | 106,794 |
| Other consumer finance | 138,777 | 161,404 |
| Consumer finance | 241,585 | 268,198 |
| Tax services | 19,168 | 2,240 |
| Warehouse finance | 277,614 | 262,924 |
| Total National Lending | 2,697,272 | 2,449,592 |
| Community Banking | | |
| Commercial real estate and operating | 608,303 | 883,932 |
| Consumer one-to-four family real estate and other | 166,479 | 259,425 |
| Agricultural real estate and operating | 24,655 | 58,464 |
| Total Community Banking | 799,437 | 1,201,821 |
| Total loans and leases | 3,496,709 | 3,651,413 |
| Net deferred loan origination fees (costs) | 5,937 | 7,434 |
| Total gross loans and leases | 3,502,646 | 3,658,847 |
| Allowance for loan and lease losses | (65,747) | (29,149) |
| Total loans and leases, net⁽²⁾ | \$ 3,436,899 | \$ 3,629,698 |

⁽¹⁾ The Company has updated the presentation of its loan and lease table beginning in the fiscal 2020 first quarter. The new presentation includes a new category called term lending. Certain balances previously included in the asset based lending and lease financing categories have been reclassified into the new term lending category during the fiscal 2020 first quarter. Prior period balances have been conformed to the new presentation.

⁽²⁾ As of June 30, 2020, the remaining balance of acquired loans and leases from the acquisition of Crestmark Bancorp, Inc. ("Crestmark") and its bank subsidiary, Crestmark Bank (the "Crestmark Acquisition") was \$188.3 million and the remaining balances of the credit and interest rate mark discounts related to the acquired loans and leases held for investment were \$3.4 million and \$2.9 million, respectively. On August 1, 2018, the Company acquired loans and leases from the Crestmark Acquisition totaling \$1.06 billion and recorded related credit and interest rate mark discounts of \$12.3 million and \$6.0 million, respectively.

During the nine months ended June 30, 2020, the Company transferred \$325.1 million of Community Banking loans to held for sale. During the nine months ended June 30, 2019, the Company transferred \$39.5 million of consumer credit product loans to held for sale.

During the nine months ended June 30, 2020 and 2019, the Company originated \$63.4 million and \$104.1 million, respectively, of SBA/USDA and consumer credit product loans as held for sale.

The Company sold held for sale loans resulting in proceeds of \$440.5 million and gains on sale of \$7.0 million during the nine months ended June 30, 2020. The Company sold held for sale loans resulting in proceeds of \$95.7 million and gains on sale of \$3.7 million during the nine months ended June 30, 2019.

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

| (Dollars in Thousands) | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|----------------------------|-----------------------------|------------------|----------------------------|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Loans Purchased | | | | |
| Loans held for sale: | | | | |
| Total National Lending | \$ — | \$ 6,703 | \$ — | \$ 12,643 |
| Loans held for investment: | | | | |
| Total National Lending | — | 72,737 | 103,888 | 198,328 |
| Total Community Banking | 2,728 | 2,710 | 16,518 | 21,223 |
| Total purchases | <u>\$ 2,728</u> | <u>\$ 82,150</u> | <u>\$ 120,406</u> | <u>\$ 232,194</u> |
| Loans Sold | | | | |
| Loans held for sale: | | | | |
| Total National Lending | \$ 8,524 | \$ 57,661 | \$ 168,814 | \$ 92,565 |
| Total Community Banking | — | — | 271,681 | — |
| Loans held for investment: | | | | |
| Total Community Banking | — | 2,212 | 3,099 | 13,069 |
| Total sales | <u>\$ 8,524</u> | <u>\$ 59,873</u> | <u>\$ 443,594</u> | <u>\$ 105,634</u> |

Leasing Portfolio

Effective October 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842) and related ASUs on a modified retrospective basis, electing the practical expedients and optional transition method. As such, the following leasing disclosures include information at, or for the three and nine months ended, June 30, 2020.

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

| (Dollars in Thousands) | June 30, 2020 | September 30, 2019 |
|--|-------------------|--------------------|
| Carrying Amount | \$ 283,003 | \$ 191,733 |
| Unguaranteed residual assets | 16,662 | 13,353 |
| Unamortized initial direct costs | 1,967 | 1,790 |
| Unearned income | (34,677) | (27,171) |
| Total net investment in direct financing and sales-type leases | <u>\$ 266,955</u> | <u>\$ 179,705</u> |

The carrying amount of direct financing and sales-type leases subject to residual value guarantees was \$9.0 million at June 30, 2020.

The components of total lease income were as follows:

| (Dollars in Thousands) | June 30, 2020 | |
|--|--------------------|-------------------|
| | Three Months Ended | Nine Months Ended |
| Interest income - loans and leases | | |
| Interest income on net investments in direct financing and sales-type leases | \$ 4,496 | \$ 12,958 |
| Leasing and equipment finance noninterest income | | |
| Lease income from operating lease payments | 11,391 | 33,857 |
| Profit (loss) recorded on commencement date on sales-type leases | 103 | 590 |
| Other ⁽¹⁾ | 554 | 3,135 |
| Total leasing and equipment finance noninterest income | 12,048 | 37,582 |
| Total lease income | <u>\$ 16,544</u> | <u>\$ 50,540</u> |

⁽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) | | |
|--|-----------|----------------|
| Remaining in 2020 | \$ | 25,308 |
| 2021 | | 95,008 |
| 2022 | | 74,899 |
| 2023 | | 49,197 |
| 2024 | | 29,178 |
| Thereafter | | 9,413 |
| Equipment under leases not yet commenced | | |
| Total undiscounted future minimum lease payments receivable for direct financing and sales-type leases | | 283,003 |
| Third-party residual value guarantees | | — |
| Total carrying amount of direct financing and sales-type leases | <u>\$</u> | <u>283,003</u> |

The Company did not record any contingent rental income from direct financing and sales-type leases in the nine months ended June 30, 2020.

During the Company's fiscal 2020 second quarter, the COVID-19 pandemic began impacting global and US markets and macroeconomic conditions, and continues to have an impact. Although the ultimate impact of the pandemic on the Company's loan and lease portfolio is difficult to predict, management performed an evaluation of the loan and lease portfolio in order to assess the impact on repayment sources and underlying collateral that could result in additional losses. The framework for the analysis was based on the Company's then-current allowance for loan and lease losses ("ALLL") methodology with additional considerations. From this impact assessment, additional reserve levels were estimated by increasing qualitative factors. The additional reserves were estimated for loans that were granted short-term payment deferrals related to financial stress stemming from the COVID-19 pandemic along with other loans within certain industries that were considered higher risk for credit loss (e.g. transportation, hospitality, travel, entertainment and retail). The Company continues to assess the impact to our customers and businesses as a result of COVID-19 and will refine our estimate as more information becomes available.

Based on the Company's ongoing assessment of the COVID-19 pandemic, the Company recognized an additional provision for loan and lease losses of \$9.4 million and \$25.2 million during the three and nine months ended June 30, 2020, respectively. The Company will continue to assess the impact to their customers and businesses as a result of COVID-19 and refine their estimate as more information becomes available.

Activity in the allowance for loan and lease losses and balances of loans and leases by portfolio segment for each of the three and nine months ended was as follows:

| (Dollars in Thousands) | Three Months Ended June 30, 2020 | | | | |
|---|----------------------------------|--|-------------|------------|----------------|
| | Beginning balance | Provision (recovery) for loan and lease losses | Charge-offs | Recoveries | Ending balance |
| Allowance for loan and lease losses: | | | | | |
| National Lending | | | | | |
| Term lending | \$ 11,647 | \$ 5,672 | \$ (2,831) | \$ 25 | \$ 14,513 |
| Asset based lending | 2,826 | (953) | (42) | — | 1,831 |
| Factoring | 4,444 | (1,997) | (140) | 362 | 2,669 |
| Lease financing | 2,683 | 4,293 | (357) | 91 | 6,710 |
| Insurance premium finance | 2,142 | 596 | (736) | 367 | 2,369 |
| SBA/USDA | 1,558 | 716 | (1,134) | — | 1,140 |
| Other commercial finance | 552 | (381) | — | — | 171 |
| Commercial finance | 25,852 | 7,946 | (5,240) | 845 | 29,403 |
| Consumer credit products | 1,082 | (111) | — | — | 971 |
| Other consumer finance | 3,414 | 358 | (567) | 44 | 3,249 |
| Consumer finance | 4,496 | 247 | (567) | 44 | 4,220 |
| Tax services | 21,320 | (100) | (9,797) | 14 | 11,437 |
| Warehouse finance | 334 | (56) | — | — | 278 |
| Total National Lending | 52,002 | 8,037 | (15,604) | 903 | 45,338 |
| Community Banking | | | | | |
| Commercial real estate and operating | 10,069 | 6,688 | — | — | 16,757 |
| Consumer one-to-four family real estate and other | 2,350 | 586 | — | — | 2,936 |
| Agricultural real estate and operating | 934 | (218) | — | — | 716 |
| Total Community Banking | 13,353 | 7,056 | — | — | 20,409 |
| Total | \$ 65,355 | \$ 15,093 | \$ (15,604) | \$ 903 | \$ 65,747 |

| (Dollars in Thousands) | Nine Months Ended June 30, 2020 | | | | |
|---|---------------------------------|--|-------------|------------|----------------|
| | 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 | \$ 14,753 | \$ (6,003) | \$ 230 | \$ 14,513 |
| Asset based lending | 2,437 | (611) | (42) | 47 | 1,831 |
| Factoring | 3,261 | (509) | (875) | 792 | 2,669 |
| Lease financing | 1,275 | 5,841 | (725) | 319 | 6,710 |
| Insurance premium finance | 1,024 | 2,671 | (1,809) | 483 | 2,369 |
| SBA/USDA | 383 | 2,007 | (1,250) | — | 1,140 |
| Other commercial finance | 683 | (512) | — | — | 171 |
| Commercial finance | 14,596 | 23,640 | (10,704) | 1,871 | 29,403 |
| Consumer credit products | 1,044 | (73) | — | — | 971 |
| Other consumer finance | 5,118 | (474) | (2,208) | 813 | 3,249 |
| Consumer finance | 6,162 | (547) | (2,208) | 813 | 4,220 |
| Tax services | — | 20,407 | (9,797) | 827 | 11,437 |
| Warehouse finance | 263 | 15 | — | — | 278 |
| Total National Lending | 21,021 | 43,515 | (22,709) | 3,511 | 45,338 |
| Community Banking | | | | | |
| Commercial real estate and operating | 6,208 | 10,549 | — | — | 16,757 |
| Consumer one-to-four family real estate and other | 1,053 | 1,883 | — | — | 2,936 |
| Agricultural real estate and operating | 867 | (151) | — | — | 716 |
| Total Community Banking | 8,128 | 12,281 | — | — | 20,409 |
| Total | \$ 29,149 | \$ 55,796 | \$ (22,709) | \$ 3,511 | \$ 65,747 |

Three Months Ended June 30, 2019

| (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 | \$ 3,121 | \$ 2,564 | \$ (1,969) | \$ 45 | \$ 3,761 |
| Asset based lending | 1,410 | 417 | (37) | 3 | 1,793 |
| Factoring | 1,761 | 2,747 | (1,335) | 31 | 3,204 |
| Lease financing | 933 | (309) | (110) | 158 | 672 |
| Insurance premium finance | 919 | 201 | (275) | 171 | 1,016 |
| SBA/USDA | 474 | 449 | — | — | 923 |
| Other commercial finance | 525 | 432 | — | — | 957 |
| Commercial finance | 9,143 | 6,501 | (3,726) | 408 | 12,326 |
| Consumer credit products | 1,314 | 142 | — | — | 1,456 |
| Other consumer finance | 5,130 | 1,890 | (1,398) | 28 | 5,650 |
| Consumer finance | 6,444 | 2,032 | (1,398) | 28 | 7,106 |
| Tax services | 24,102 | 914 | (9,627) | 36 | 15,425 |
| Warehouse finance | 185 | 65 | — | — | 250 |
| Total National Lending | 39,874 | 9,512 | (14,751) | 472 | 35,107 |
| Community Banking | | | | | |
| Commercial real estate and operating | 6,673 | (249) | — | — | 6,424 |
| Consumer one-to-four family real estate and other | 958 | (65) | — | — | 893 |
| Agricultural real estate and operating | 1,167 | (86) | — | — | 1,081 |
| Total Community Banking | 8,798 | (400) | — | — | 8,398 |
| Total | \$ 48,672 | \$ 9,112 | \$ (14,751) | \$ 472 | \$ 43,505 |

Nine Months Ended June 30, 2019

| (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 | \$ 89 | \$ 4,928 | \$ (2,751) | \$ 1,495 | \$ 3,761 |
| Asset based lending | 47 | 1,775 | (37) | 8 | 1,793 |
| Factoring | 64 | 5,769 | (2,711) | 82 | 3,204 |
| Lease financing | 30 | 1,039 | (1,052) | 655 | 672 |
| Insurance premium finance | 1,031 | 2,091 | (2,359) | 253 | 1,016 |
| SBA/USDA | 13 | 910 | — | — | 923 |
| Other commercial finance | 28 | 929 | — | — | 957 |
| Commercial finance | 1,302 | 17,441 | (8,910) | 2,493 | 12,326 |
| Consumer credit products | 785 | 671 | — | — | 1,456 |
| Other consumer finance | 2,820 | 8,249 | (5,477) | 58 | 5,650 |
| Consumer finance | 3,605 | 8,920 | (5,477) | 58 | 7,106 |
| Tax services | — | 24,883 | (9,670) | 212 | 15,425 |
| Warehouse finance | 65 | 185 | — | — | 250 |
| Total National Lending | 4,972 | 51,429 | (24,057) | 2,763 | 35,107 |
| Community Banking | | | | | |
| Commercial real estate and operating | 6,220 | 204 | — | — | 6,424 |
| Consumer one-to-four family real estate and other | 632 | 281 | (20) | — | 893 |
| Agricultural real estate and operating | 1,216 | (385) | — | 250 | 1,081 |
| Total Community Banking | 8,068 | 100 | (20) | 250 | 8,398 |
| Total | \$ 13,040 | \$ 51,529 | \$ (24,077) | \$ 3,013 | \$ 43,505 |

The following tables provide details regarding the allowance for loan and lease losses and balance by type of allowance:

| Recorded Investment | 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 |
| As of June 30, 2020 | (Dollars in Thousands) | | | | | |
| National Lending | | | | | | |
| Term lending | \$ 3,366 | \$ 11,147 | \$ 14,513 | \$ 31,467 | \$ 706,987 | \$ 738,454 |
| Asset based lending | — | 1,831 | 1,831 | 2,805 | 178,325 | 181,130 |
| Factoring | 189 | 2,480 | 2,669 | 2,165 | 204,196 | 206,361 |
| Lease financing | 1,350 | 5,360 | 6,710 | 4,695 | 260,293 | 264,988 |
| Insurance premium finance | — | 2,369 | 2,369 | — | 359,147 | 359,147 |
| SBA/USDA | 241 | 899 | 1,140 | 2,380 | 306,231 | 308,611 |
| Other commercial finance | — | 171 | 171 | — | 100,214 | 100,214 |
| Commercial finance | 5,146 | 24,257 | 29,403 | 43,512 | 2,115,393 | 2,158,905 |
| Consumer credit products | — | 971 | 971 | — | 102,808 | 102,808 |
| Other consumer finance | — | 3,249 | 3,249 | 2,177 | 136,600 | 138,777 |
| Consumer finance | — | 4,220 | 4,220 | 2,177 | 239,408 | 241,585 |
| Tax services | — | 11,437 | 11,437 | — | 19,168 | 19,168 |
| Warehouse finance | — | 278 | 278 | — | 277,614 | 277,614 |
| Total National Lending | 5,146 | 40,192 | 45,338 | 45,689 | 2,651,583 | 2,697,272 |
| Community Banking | | | | | | |
| Commercial real estate and operating | 141 | 16,616 | 16,757 | 419 | 607,884 | 608,303 |
| Consumer one-to-four family real estate and other | — | 2,936 | 2,936 | 177 | 166,302 | 166,479 |
| Agricultural real estate and operating | — | 716 | 716 | 2,437 | 22,218 | 24,655 |
| Total Community Banking | 141 | 20,268 | 20,409 | 3,033 | 796,404 | 799,437 |
| Total | \$ 5,287 | \$ 60,460 | \$ 65,747 | \$ 48,722 | \$ 3,447,987 | \$ 3,496,709 |

| Recorded Investment | 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 |
| As of September 30, 2019 | (Dollars in Thousands) | | | | | |
| National Lending | | | | | | |
| Term lending | \$ 450 | \$ 5,083 | \$ 5,533 | \$ 19,568 | \$ 622,174 | \$ 641,742 |
| Asset based lending | — | 2,437 | 2,437 | 378 | 250,087 | 250,465 |
| Factoring | 1,262 | 1,999 | 3,261 | 3,824 | 292,683 | 296,507 |
| Lease financing | 112 | 1,163 | 1,275 | 1,213 | 176,702 | 177,915 |
| Insurance premium finance | — | 1,024 | 1,024 | — | 361,105 | 361,105 |
| SBA/USDA | 51 | 332 | 383 | 3,841 | 84,990 | 88,831 |
| Other commercial finance | — | 683 | 683 | — | 99,665 | 99,665 |
| Commercial finance | 1,875 | 12,721 | 14,596 | 28,824 | 1,887,406 | 1,916,230 |
| Consumer credit products | — | 1,044 | 1,044 | — | 106,794 | 106,794 |
| Other consumer finance | — | 5,118 | 5,118 | 1,472 | 159,932 | 161,404 |
| Consumer finance | — | 6,162 | 6,162 | 1,472 | 266,726 | 268,198 |
| Tax services | — | — | — | — | 2,240 | 2,240 |
| Warehouse finance | — | 263 | 263 | — | 262,924 | 262,924 |
| Total National Lending | 1,875 | 19,146 | 21,021 | 30,296 | 2,419,296 | 2,449,592 |
| Community Banking | | | | | | |
| Commercial real estate and operating | — | 6,208 | 6,208 | 258 | 883,674 | 883,932 |
| Consumer one-to-four family real estate and other | — | 1,053 | 1,053 | 100 | 259,325 | 259,425 |
| Agricultural real estate and operating | — | 867 | 867 | 2,985 | 55,479 | 58,464 |
| Total Community Banking | — | 8,128 | 8,128 | 3,343 | 1,198,478 | 1,201,821 |
| Total | \$ 1,875 | \$ 27,274 | \$ 29,149 | \$ 33,639 | \$ 3,617,774 | \$ 3,651,413 |

In response to the ongoing COVID-19 pandemic, the Company allowed modifications, such as payment deferrals and temporary forbearance, 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 June 30, 2020, the Company granted deferral payments on a total of \$352.1 million of loan and lease balances 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. The Company elected to accrue and recognize interest income on these modifications during the payment deferral period.

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 loan and lease classification and risk rating definitions are as follows:

Pass- A pass asset is of sufficient quality in terms of repayment, collateral and management to preclude a special mention or an adverse rating.

Watch- A watch asset is generally a credit performing well under current terms and conditions but with identifiable weakness meriting additional scrutiny and corrective measures. Watch is not a regulatory classification but can be used to designate assets that are exhibiting one or more weaknesses that deserve management's attention. These assets are of better quality than special mention assets.

Special Mention- A special mention asset is a credit with potential weaknesses deserving management's close attention and, if left uncorrected, may result in deterioration of the repayment prospects for the asset. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Special mention is a temporary status with aggressive credit management required to garner adequate progress and move to watch or higher.

The adverse classifications are as follows:

Substandard- A substandard asset is inadequately protected by the net worth and/or repayment ability or by a weak collateral position. Assets so classified will have well-defined weaknesses creating a distinct possibility the Bank will sustain some loss if the weaknesses are not corrected. Loss potential does not have to exist for an asset to be classified as substandard.

Doubtful- A doubtful asset has weaknesses similar to those classified substandard, with the degree of weakness causing the likely loss of some principal in any reasonable collection effort. Due to pending factors, the asset's classification as loss is not yet appropriate.

Loss- A loss asset is considered uncollectible and of such little value that the asset's continuance on the Bank's balance sheet is no longer warranted. This classification does not necessarily mean an asset has no recovery or salvage value leaving room for future collection efforts.

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 Company 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 Company'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.

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 Allowance for Loan and Lease Losses.

Beginning in the fiscal 2020 first quarter the Company implemented changes to the risk rating approach on certain commercial finance portfolios as part of a streamlining process to provide a more consistent risk rating approach across all of its lending portfolios. Based upon a study of the Company's special mention commercial finance loans and leases, the Company determined that approximately \$117.0 million of those loans and leases should be rated as watch under the new approach. Prior to the fiscal 2020 first quarter, none of the Company's commercial finance loans and leases were rated as watch. Based on Meta's allowance methodology, these changes in risk ratings did not have a direct impact on the allowance for loan and lease losses. The aggregate balance of watch and special mention loans and leases within the commercial finance portfolio increased to \$179.8 million at June 30, 2020, compared to \$145.0 million at September 30, 2019.

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 loan losses on these portfolios, and as such, these loans are not included in the asset classification table below, beginning in the fiscal 2020 first quarter. The September 30, 2019 asset classification table has been conformed to the current presentation. The outstanding balances of consumer finance loans and tax services loans were \$241.6 million and \$19.2 million at June 30, 2020, respectively, and \$268.2 million and \$2.2 million at September 30, 2019, respectively.

The asset classifications of loans and leases were as follows:

| Asset Classification | Pass | Watch | Special Mention | Substandard | Doubtful | Total |
|---|--------------|------------|-----------------|-------------|----------|--------------|
| As of June 30, 2020 | | | | | | |
| (Dollars in Thousands) | | | | | | |
| National Lending | | | | | | |
| Term lending | \$ 656,198 | \$ 42,015 | \$ 8,774 | \$ 28,579 | \$ 2,888 | \$ 738,454 |
| Asset based lending | 108,069 | 58,415 | 11,841 | 2,805 | — | 181,130 |
| Factoring | 161,075 | 22,255 | 20,865 | 2,166 | — | 206,361 |
| Lease financing | 257,540 | 1,875 | 879 | 4,553 | 141 | 264,988 |
| Insurance premium finance | 356,821 | 1,305 | 402 | 125 | 494 | 359,147 |
| SBA/USDA | 295,815 | 10,339 | 77 | 2,380 | — | 308,611 |
| Other commercial finance | 99,495 | 719 | — | — | — | 100,214 |
| Commercial finance | 1,935,013 | 136,923 | 42,838 | 40,608 | 3,523 | 2,158,905 |
| Warehouse finance | 277,614 | — | — | — | — | 277,614 |
| Total National Lending | 2,212,627 | 136,923 | 42,838 | 40,608 | 3,523 | 2,436,519 |
| Community Banking | | | | | | |
| Commercial real estate and operating | 599,144 | 698 | 4,019 | 3,862 | 580 | 608,303 |
| Consumer one-to-four family real estate and other | 165,518 | 42 | 655 | 264 | — | 166,479 |
| Agricultural real estate and operating | 11,946 | — | 4,909 | 7,800 | — | 24,655 |
| Total Community Banking | 776,608 | 740 | 9,583 | 11,926 | 580 | 799,437 |
| Total loans and leases | \$ 2,989,235 | \$ 137,663 | \$ 52,421 | \$ 52,534 | \$ 4,103 | \$ 3,235,956 |

| Asset Classification | Pass | Watch | Special Mention | Substandard | Doubtful | Total |
|---|--------------|----------|-----------------|-------------|----------|--------------|
| As of September 30, 2019 | | | | | | |
| (Dollars in Thousands) | | | | | | |
| National Lending | | | | | | |
| Term lending | \$ 585,382 | \$ — | \$ 36,792 | \$ 19,024 | \$ 544 | \$ 641,742 |
| Asset based lending | 192,427 | — | 57,660 | 378 | — | 250,465 |
| Factoring | 256,048 | — | 36,635 | 3,824 | — | 296,507 |
| Lease financing | 171,785 | — | 4,917 | 1,213 | — | 177,915 |
| Insurance premium finance | 361,105 | — | — | — | — | 361,105 |
| SBA/USDA | 76,609 | — | 8,381 | 3,841 | — | 88,831 |
| Other commercial finance | 99,057 | — | 608 | — | — | 99,665 |
| Commercial finance | 1,742,413 | — | 144,993 | 28,280 | 544 | 1,916,230 |
| Warehouse finance | 262,924 | — | — | — | — | 262,924 |
| Total National Lending | 2,005,337 | — | 144,993 | 28,280 | 544 | 2,179,154 |
| Community Banking | | | | | | |
| Commercial real estate and operating | 875,933 | 1,494 | 2,884 | 3,621 | — | 883,932 |
| Consumer one-to-four family real estate and other | 257,575 | 946 | 708 | 196 | — | 259,425 |
| Agricultural real estate and operating | 39,409 | 4,631 | 5,876 | 8,548 | — | 58,464 |
| Total Community Banking | 1,172,917 | 7,071 | 9,468 | 12,365 | — | 1,201,821 |
| Total loans and leases | \$ 3,178,254 | \$ 7,071 | \$ 154,461 | \$ 40,645 | \$ 544 | \$ 3,380,975 |

National Lending

Commercial Finance

The Company's commercial finance product lines include term lending, asset based lending, factoring, leasing, insurance premium finance, government guaranteed lending and other commercial finance products offered on a nationwide basis.

Term Lending. Through its Crestmark division, the Bank originates a variety of collateralized conventional term loans and notes receivable, while terms range from three years to 25 years, the weighted average life is approximately 53 months. These term loans may be secured by equipment, recurring revenue streams, or real estate. Credit risk is managed through setting loan amounts appropriate for the collateral by utilizing information ranging from equipment cost, appraisals, valuations, or lending history. The Bank follows standardized loan policies and established and authorized credit limits and applies attentive portfolio management, which includes monitoring past dues, financial performance, financial covenants, and industry trends. As of June 30, 2020, 20% of the term lending portfolio exposure is concentrated in solar/alternative energy, most of which are construction projects that will convert to longer term government guaranteed facilities upon completion of the construction phase. Equipment Finance Agreements ("EFAs") and Installment Purchase Agreements ("IPAs") make up \$299.1 million, or 41%, of the term lending total as of June 30, 2020. The remaining 39% are a variety of investment advisory loans and other more traditional term equipment and general purpose commercial loans.

Asset Based Lending. Through its Crestmark division, the Bank provides asset based loans secured by short-term assets such as inventory, accounts receivable, and work-in-process. Asset based loans may also be secured by real estate and equipment. The primary sources of repayment are the operating income of the borrower, the collection of the receivables securing the loan, and/or the sale of the inventory securing the loan. Loans are typically revolving lines of credit with terms of one year to three years, whereby the Bank withholds a contingency reserve representing the difference between the amount advanced and the fair value of the invoice amount or other collateral value. Credit risk is managed through advance rates appropriate for the collateral (generally, advance rates on accounts receivable is 85% and inventory advance rates range from 40% to 50%), standardized loan policies, established and authorized credit limits, attentive portfolio management and the use of lock box agreements and similar arrangements that result in the Company receiving and controlling the debtors' cash receipts. As of June 30, 2020, approximately 50% of these loans were backed by accounts receivable.

Factoring. Through its Crestmark division, the Bank provides factoring lending where clients provide detailed inventory, accounts receivable, and work-in-process reports for lending arrangements. The factoring clients are diversified as to industry and geography. With these loans, the Crestmark division withholds a contingency reserve, which is the difference between the fair value of the invoice amount or other collateral value and the amount advanced (generally, advance rates are 85% on accounts receivable). This reserve is withheld for nonpayment of factored receivables, service fees and other adjustments. Credit risk is managed through standardized advance policies, established and authorized credit limits, verification of receivables, attentive portfolio management and the use of lock box agreements and similar arrangements that result in the Company receiving and controlling the client's cash receipts. In addition, clients generally guarantee the payment of purchased accounts receivable. As of June 30, 2020, approximately 80% of these loans were backed by accounts receivable.

Lease Financing. Through its Crestmark division, the Bank provides creative, flexible lease solutions for technology, capital equipment and select transportation assets like tractors and trailers. Direct financing leases and sales-type leases substantially transfer the benefits and risks of equipment ownership to the lessee. The lease may contain provisions that transfer ownership to the lessee at the end of the initial term, contain a bargain purchase option or allow for purchase of the equipment at fair market value. Residual values are estimated at the inception of the lease. Lease maturities are generally no greater than 84 months. The focus in this lease financing category is to support middle market companies by providing a variety of financing products to help them meet their business objectives.

Insurance Premium Finance. Through its AFS/IBEX division the Bank provides, on a national basis, short-term, primarily collateralized financing to facilitate the commercial customers' purchase of insurance for various forms of risk, otherwise known as insurance premium financing. This includes, but is not limited to, policies for commercial property, casualty and liability risk. Premiums are advanced either directly to the insurance carrier or through an intermediary/broker and repaid by the policyholder with interest during the policy term. The policyholder generally makes a 20% to 25% down payment to the insurance broker and finances the remainder over nine months to 10 months on average. The down payment is set such that if the policy is canceled, the unearned premium is typically sufficient to cover the loan balance and accrued interest and is returned by the insurer to the Bank on a pro rata basis. Over 99% of the portfolio finances policies provided by investment grade-rated insurance company partners.

Small Business Administration ("SBA") and United States Department of Agriculture ("USDA"). The Bank originates loans through programs partially guaranteed by the SBA or USDA. These loans are made to small businesses and professionals with what the Bank believes are lower risk characteristics. Certain guaranteed portions of these loans are generally sold to the secondary market. Also see Note 3 to the Condensed Consolidated Financial Statements included in this quarterly report. As part of the SBA's coronavirus debt relief efforts, the SBA will pay six months of principal, interest, and any associated fees that borrowers owe for all current 7(a), 504, and Microloans in regular servicing status as well as new 7(a), 504, and Microloans disbursed prior to September 27, 2020. As of June 30, 2020, there were 145 loans with a retained outstanding balance of \$48.4 million receiving six months principal and interest from the SBA. The Company is also participating in the PPP, which is being administered by the SBA. The Company expects that some portion of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. Loans funded through the PPP program are fully guaranteed by the U.S. government. As of June 30, 2020, the Company authorized 686 applications, totaling \$215.5 million in PPP loan requests as part of the program.

Other Commercial Finance. Included in this category of loans are the Company's healthcare receivables loan portfolio primarily comprised of loans to individuals for medical services received. The majority of these loans are guaranteed by the hospital providing the service to the debtor and this guarantee serves to reduce credit risk as the guarantors agree to repurchase severely delinquent loans. Credit risk is minimized on these loans based on the guarantor's repurchase agreement. This loan category also includes commercial real estate loans to customers of the Crestmark division.

Consumer Finance

Consumer Credit Products. The Bank designs its credit program relationships with certain desired outcomes. Three high priority outcomes are liquidity, credit protection, and risk retention. The Bank believes the benefits of these outcomes not only support its goals but the goals of the credit program partner as well. The Bank designs its program credit protections in a manner so that the Bank earns a reasonable risk adjusted return, but is protected by certain layers of credit support, similar to what you would find in structured finance. The Bank will hold a sizable portion of the originated asset on its own balance sheet, but retains the flexibility to sell a portion of the originated asset to other interested parties, thereby supporting program liquidity.

Through June 30, 2020, the Bank has launched two consumer credit programs. The loan products offered under these programs are generally closed-end installment loans with terms between 12 months and 84 months and revolving lines of credit with durations between six months and 60 months.

Other Consumer Finance. The Bank's purchased student loan portfolios are seasoned, floating rate, private portfolios that are serviced by a third-party servicer. The portfolio purchased during the fiscal 2018 first quarter is indexed to one-month of the London Interbank Offered Rate ("LIBOR"), while the portfolio purchased in the fiscal 2017 first quarter is indexed to three-month LIBOR plus various margins. The Company received written notification on June 18, 2018 from ReliaMax Surety Company ("ReliaMax"), the company that provided insurance coverage for the student loan portfolios, which informed policy holders that the South Dakota Division of Insurance filed a petition to have ReliaMax declared insolvent and to adopt a plan of liquidation. An Order of Liquidation was entered on June 27, 2018 by the Sixth Circuit Court in Hughes County, South Dakota, declaring ReliaMax insolvent and appointing the South Dakota Division of Insurance as liquidator to adopt a plan of liquidation. The Company expects to ultimately recover a portion of the unearned premiums, though the Company can provide no assurance as to the timing and amount of any such recovery.

Tax Services

The Bank's tax services division provides short-term taxpayer advance loans. Taxpayers are underwritten to determine eligibility for these unsecured loans. Due to the nature of taxpayer advance loans, it typically takes no more than three e-file cycles (the period of time between scheduled IRS payments) from when the return is accepted by the IRS to collect from the borrower. In the event of default, the Bank has no recourse against the tax consumer. The Bank will charge off the balance of a taxpayer advance loan if there is a balance at the end of the calendar year, or when collection of principal becomes doubtful.

Through its tax services division, the Bank provides short-term electronic return originator ("ERO") advance loans on a nationwide basis. These loans are typically utilized by tax preparers to purchase tax preparation software and to prepare tax office operations for the upcoming tax season. EROs go through an underwriting process to determine eligibility for the unsecured advances. ERO loans are not collateralized. Collection on ERO advances begins once the ERO begins to process refund transfers. Generally, the Bank will charge off the balance of an ERO advance loan if there is a balance at the end of June, or when collection of principal becomes doubtful.

Warehouse Finance

The Bank participates in several asset-backed warehouse lines of credit whereby the Bank is in a senior, secured position as the first out participant. These facilities are primarily collateralized by consumer receivables, with the Bank holding a senior collateral position enhanced by a subordinate party structure.

Community Banking

Effective on the Closing Date of the Community Bank division sale to Central Bank, the Company substantially ceased originating loans within its Community Banking loan portfolio. The Company entered a servicing agreement with Central Bank for the retained Community Bank loan portfolio that became effective on the Closing Date. See Note 4. Divestitures for further information related to the Community Banking lending portfolio.

Commercial Real Estate and Operating

The Company's commercial and multi-family real estate loans are secured primarily by apartment buildings, office buildings, and hotels. Commercial and multi-family real estate loans generally were underwritten with terms not exceeding 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property securing the loan, and are typically secured by guarantees of the borrowers. As of June 30, 2020, multi-family real estate loan balances totaled \$138.7 million, over 94% of which were located within the Community Bank division's footprint of South Dakota and Iowa. The average loan-to-value ratio on multi-family real estate loans at the time of the Company's most recently completed annual stress test analysis was approximately 69%.

As of June 30, 2020, hospitality loan balances totaled \$169.0 million, of which approximately 28% were located in the Community Bank division's footprint of South Dakota and Iowa, while the majority of the remaining balances were through developers headquartered in the Community Bank division footprint with properties located in Minnesota, North Dakota, Nebraska, Wisconsin, Kansas, Arizona, Colorado and California. Over 98% of the outstanding loan balances are flagged hotel relationships and a large majority of the loans have guarantors by individuals with a strong combined net worth. Based on the latest appraisals the Company has on file, the average loan-to-value ratio on hospitality loans was approximately 60%.

Most of the Company's commercial operating loans were extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial operating loans also may involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year.

Consumer One-to-Four Family Real Estate and Other

The Company's one-to-four family residential mortgage loans have terms up to a maximum of 30 years and with loan-to-value ratios up to 100% of the lesser of the appraised value of the property securing the loan or the contract price. However, the vast majority of these loans were originated with loan-to-value ratios below 80%. The Company also has five year and ten year ARM loans. As of June 30, 2020, over 93% of the one-to-four family real estate loans were located within the Community Bank division's footprint of South Dakota and Iowa.

The Company also has a variety of secured consumer loans, primarily made up of home equity and home improvement loans. Substantially all of the Company's home equity loans and lines of credit are secured by second mortgages on principal residences. The Bank lent amounts which, together with all prior liens, may have been up to 90% of the appraised value of the property securing the loan. Home equity loans and lines of credit generally have maximum terms of five years. As of June 30, 2020, the outstanding balance in these secured consumer loans was less than \$4.0 million and approximately 99% of those were located within the Community Bank division's footprint of South Dakota and Iowa.

Agricultural Real Estate and Operating

The Company's agricultural loans finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer, and other farm-related products. Agricultural operating loans are at either an adjustable- or fixed-rate of interest for up to a one year term or, in the case of livestock, are due upon sale. Agricultural real estate loans were frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first five years to 10 years, after which the loan will balloon or the interest rate will adjust annually. These loans generally amortize over a period of 20 years to 25 years. Fixed-rate agricultural real estate loans typically have terms up to 10 years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan. As of June 30, 2020, 70% of the agricultural loans were real estate loans while the remaining 30% were agricultural operating loans and approximately 91% of the total agricultural loans were located within the Community Bank division's footprint of South Dakota and Iowa.

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 June 30, 2020 | | | | | | | | | |
| Loans held for sale | \$ — | \$ — | \$ — | \$ — | \$ 79,905 | \$ 79,905 | \$ — | \$ — | \$ — |
| National Lending | | | | | | | | | |
| Term lending | 7,371 | 6,957 | 16,965 | 31,293 | 707,161 | 738,454 | 2,578 | 16,524 | 19,102 |
| Asset based lending | — | — | — | — | 181,130 | 181,130 | — | — | — |
| Factoring | — | — | — | — | 206,361 | 206,361 | — | 733 | 733 |
| Lease financing | 4,623 | 5,669 | 4,583 | 14,875 | 250,113 | 264,988 | 1,907 | 3,518 | 5,425 |
| Insurance premium finance | 1,711 | 3,379 | 3,723 | 8,813 | 350,334 | 359,147 | 3,723 | — | 3,723 |
| SBA/USDA | 160 | — | 1,879 | 2,039 | 306,572 | 308,611 | 427 | 1,510 | 1,937 |
| Other commercial finance | — | — | — | — | 100,214 | 100,214 | — | — | — |
| Commercial finance | 13,865 | 16,005 | 27,150 | 57,020 | 2,101,885 | 2,158,905 | 8,635 | 22,285 | 30,920 |
| Consumer credit products | 506 | 412 | 337 | 1,255 | 101,553 | 102,808 | 337 | — | 337 |
| Other consumer finance | 144 | 211 | 572 | 927 | 137,850 | 138,777 | 572 | — | 572 |
| Consumer finance | 650 | 623 | 909 | 2,182 | 239,403 | 241,585 | 909 | — | 909 |
| Tax services | — | 19,168 | — | 19,168 | — | 19,168 | — | — | — |
| Warehouse finance | — | — | — | — | 277,614 | 277,614 | — | — | — |
| Total National Lending | 14,515 | 35,796 | 28,059 | 78,370 | 2,618,902 | 2,697,272 | 9,544 | 22,285 | 31,829 |
| Community Banking | | | | | | | | | |
| Commercial real estate and operating | 2,791 | 580 | 258 | 3,629 | 604,674 | 608,303 | 258 | 580 | 838 |
| Consumer one-to-four family real estate and other | 863 | — | 121 | 984 | 165,495 | 166,479 | — | 121 | 121 |
| Agricultural real estate and operating | 1,256 | 45 | 6,506 | 7,807 | 16,848 | 24,655 | 4,737 | 1,769 | 6,506 |
| Total Community Banking | 4,910 | 625 | 6,885 | 12,420 | 787,017 | 799,437 | 4,995 | 2,470 | 7,465 |
| Total loans and leases held for investment | 19,425 | 36,421 | 34,944 | 90,790 | 3,405,919 | 3,496,709 | 14,539 | 24,755 | 39,294 |
| Total loans and leases | \$ 19,425 | \$ 36,421 | \$ 34,944 | \$ 90,790 | \$ 3,485,824 | \$ 3,576,614 | \$ 14,539 | \$ 24,755 | \$ 39,294 |

| (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 September 30, 2019 | | | | | | | | | |
| Loans held for sale | \$ 1,122 | \$ 755 | \$ 964 | \$ 2,841 | \$ 145,936 | \$ 148,777 | \$ 964 | \$ — | \$ 964 |
| National Lending | | | | | | | | | |
| Term lending | 2,162 | 910 | 14,098 | 17,170 | 624,572 | 641,742 | 2,241 | 12,146 | 14,387 |
| Asset based lending | — | — | — | — | 250,465 | 250,465 | — | — | — |
| Factoring | — | — | — | — | 296,507 | 296,507 | — | 1,669 | 1,669 |
| Lease financing | 1,160 | 1,134 | 1,736 | 4,030 | 173,885 | 177,915 | 1,530 | 308 | 1,838 |
| Insurance premium finance | 1,999 | 2,881 | 3,807 | 8,687 | 352,418 | 361,105 | 3,807 | — | 3,807 |
| SBA/USDA | 83 | — | 255 | 338 | 88,493 | 88,831 | — | 255 | 255 |
| Other commercial finance | — | — | — | — | 99,665 | 99,665 | — | — | — |
| Commercial finance | 5,404 | 4,925 | 19,896 | 30,225 | 1,886,005 | 1,916,230 | 7,578 | 14,378 | 21,956 |
| Consumer credit products | 627 | 557 | 239 | 1,423 | 105,371 | 106,794 | 239 | — | 239 |
| Other consumer finance | 932 | 1,005 | 1,078 | 3,015 | 158,389 | 161,404 | 1,078 | — | 1,078 |
| Consumer finance | 1,559 | 1,562 | 1,317 | 4,438 | 263,760 | 268,198 | 1,317 | — | 1,317 |
| Tax services | — | — | 2,240 | 2,240 | — | 2,240 | 2,240 | — | 2,240 |
| Warehouse finance | — | — | — | — | 262,924 | 262,924 | — | — | — |
| Total National Lending | 6,963 | 6,487 | 23,453 | 36,903 | 2,412,689 | 2,449,592 | 11,135 | 14,378 | 25,513 |
| Community Banking | | | | | | | | | |
| Commercial real estate and operating | 565 | — | — | 565 | 883,367 | 883,932 | — | — | — |
| Consumer one-to-four family real estate and other | 458 | — | 9 | 467 | 258,958 | 259,425 | — | 44 | 44 |
| Agricultural real estate and operating | 49 | — | — | 49 | 58,415 | 58,464 | — | — | — |
| Total Community Banking | 1,072 | — | 9 | 1,081 | 1,200,740 | 1,201,821 | — | 44 | 44 |
| Total loans and leases held for investment | 8,035 | 6,487 | 23,462 | 37,984 | 3,613,429 | 3,651,413 | 11,135 | 14,422 | 25,557 |
| Total loans and leases | \$ 9,157 | \$ 7,242 | \$ 24,426 | \$ 40,825 | \$ 3,759,365 | \$ 3,800,190 | \$ 12,099 | \$ 14,422 | \$ 26,521 |

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.

Impaired loans and leases were as follows:

| As of June 30, 2020 | Recorded Balance | Unpaid Principal Balance | Specific Allowance |
|---|---------------------|-----------------------------|-----------------------|
| (Dollars in Thousands) | | | |
| Loans and leases without a specific valuation allowance | | | |
| National Lending | | | |
| Term lending | \$ 17,442 | \$ 20,217 | \$ — |
| Asset based lending | 2,805 | 2,805 | — |
| Factoring | 1,282 | 2,357 | — |
| Lease financing | 1,474 | 1,482 | — |
| SBA/USDA | 870 | 870 | — |
| Commercial finance | 23,873 | 27,731 | — |
| Other consumer finance | 2,177 | 2,314 | — |
| Consumer finance | 2,177 | 2,314 | — |
| Total National Lending | 26,050 | 30,045 | — |
| Community Banking | | | |
| Commercial real estate and operating | 259 | 259 | — |
| Consumer one-to-four family real estate and other | 177 | 177 | — |
| Agricultural real estate and operating | 2,437 | 2,437 | — |
| Total Community Banking | 2,873 | 2,873 | — |
| Total | \$ 28,923 | \$ 32,918 | \$ — |
| Loans and leases with a specific valuation allowance | | | |
| National Lending | | | |
| Term lending | \$ 14,025 | \$ 14,037 | \$ 3,366 |
| Factoring | 883 | 883 | 189 |
| Lease financing | 3,221 | 3,221 | 1,350 |
| SBA/USDA | 1,510 | 1,510 | 241 |
| Commercial finance | 19,639 | 19,651 | 5,146 |
| Total National Lending | 19,639 | 19,651 | 5,146 |
| Community Banking | | | |
| Commercial real estate and operating | 160 | 160 | 141 |
| Total Community Banking Loans | 160 | 160 | 141 |
| Total | \$ 19,799 | \$ 19,811 | \$ 5,287 |

| As of September 30, 2019 | Recorded Balance | Unpaid Principal Balance | Specific Allowance |
|---|------------------|--------------------------|--------------------|
| (Dollars in Thousands) | | | |
| Loans and leases without a specific valuation allowance | | | |
| National Lending | | | |
| Term lending | \$ 12,644 | \$ 13,944 | \$ — |
| Asset based lending | 378 | 378 | — |
| Factoring | 1,563 | 2,638 | — |
| Lease financing | 1,062 | 1,062 | — |
| SBA/USDA | 2,595 | 2,595 | — |
| Commercial finance | 18,242 | 20,617 | — |
| Other consumer finance | 1,472 | 1,539 | — |
| Consumer finance | 1,472 | 1,539 | — |
| Total National Lending | 19,714 | 22,156 | — |
| Community Banking | | | |
| Commercial real estate and operating | 258 | 258 | — |
| Consumer one-to-four family real estate and other | 100 | 100 | — |
| Agricultural real estate and operating | 2,985 | 2,985 | — |
| Total Community Banking | 3,343 | 3,343 | — |
| Total | \$ 23,057 | \$ 25,499 | \$ — |
| Loans and leases with a specific valuation allowance | | | |
| National Lending | | | |
| Term lending | \$ 6,924 | \$ 6,951 | \$ 450 |
| Factoring | 2,261 | 3,601 | 1,262 |
| Lease financing | 151 | 151 | 112 |
| SBA/USDA | 1,246 | 1,246 | 51 |
| Commercial finance | 10,582 | 11,949 | 1,875 |
| Total National Lending | 10,582 | 11,949 | 1,875 |
| Total | \$ 10,582 | \$ 11,949 | \$ 1,875 |

The following table provides the average recorded investment in impaired loans and leases for the three and nine months ended:

| (Dollars in Thousands) | Three Months Ended June 30, | | | |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | 2020 | | 2019 | |
| | Average Recorded Investment | Recognized Interest Income | Average Recorded Investment | Recognized Interest Income |
| National Lending | | | | |
| Term lending | \$ 28,848 | \$ 121 | \$ 3,906 | \$ 88 |
| Asset based lending | 935 | — | 2,777 | — |
| Factoring | 4,715 | — | 6,621 | — |
| Lease financing | 2,946 | 2 | 3,351 | — |
| SBA/USDA | 3,162 | — | 425 | — |
| Commercial finance | 40,606 | 123 | 17,080 | 88 |
| Other consumer finance | 1,999 | 37 | 1,190 | 28 |
| Consumer finance | 1,999 | 37 | 1,190 | 28 |
| Total National Lending | 42,605 | 160 | 18,270 | 116 |
| Community Banking | | | | |
| Commercial real estate and operating | 405 | 1 | 106 | 5 |
| Consumer one-to-four family real estate and other | 131 | — | 186 | 1 |
| Agricultural real estate and operating | 2,437 | 10 | 1,226 | 28 |
| Total Community Banking | 2,973 | 11 | 1,518 | 34 |
| Total loans and leases | \$ 45,578 | \$ 171 | \$ 19,788 | \$ 150 |

| (Dollars in Thousands) | Nine Months Ended June 30, | | | |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | 2020 | | 2019 | |
| | Average Recorded Investment | Recognized Interest Income | Average Recorded Investment | Recognized Interest Income |
| National Lending | | | | |
| Term lending | \$ 24,946 | \$ 240 | \$ 4,667 | \$ 262 |
| Asset based lending | 571 | — | 1,267 | — |
| Factoring | 4,387 | — | 4,178 | 5 |
| Lease financing | 2,929 | 14 | 3,070 | 17 |
| SBA/USDA | 3,530 | — | 142 | — |
| Commercial finance | 36,363 | 254 | 13,325 | 284 |
| Other consumer finance | 1,775 | 111 | 1,215 | 38 |
| Consumer finance | 1,775 | 111 | 1,215 | 38 |
| Total National Lending | 38,138 | 365 | 14,540 | 322 |
| Community Banking | | | | |
| Commercial real estate and operating | 511 | 27 | 259 | 9 |
| Consumer one-to-four family real estate and other | 101 | 9 | 154 | 3 |
| Agricultural real estate and operating | 2,677 | (134) | 1,371 | 63 |
| Total Community Banking | 3,289 | (98) | 1,784 | 75 |
| Total loans and leases | \$ 41,427 | \$ 267 | \$ 16,324 | \$ 397 |

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 \$1.4 million of national lending loans that were modified in a TDR during the three months ended June 30, 2020, all of which were modified to extend the term of the loan, and no community banking loans. There were \$0.7 million community banking loans and \$0.1 million of national lending loans and leases that were modified in a TDR during the three months ended June 30, 2019.

During the nine months ended June 30, 2020, there were \$5.5 million of national lending loans and \$0.6 million of community bank loans that were modified in a TDR, all of which were modified to extend the term of the loan. There were \$1.7 million of national lending loans and leases and \$0.7 million of community banking loans that were modified in a TDR during the nine months ended June 30, 2019.

During the nine months ended June 30, 2020, the Company had \$3.3 million of community banking loans and \$1.3 million of national lending loans that were modified in a TDR within the previous 12 months and for which there was a payment default. During the nine months ended June 30, 2019, the Company had \$0.9 million of community banking loans and no 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 loan and lease losses were insignificant during the quarters ended June 30, 2020 and June 30, 2019.

NOTE 7. EARNINGS PER COMMON SHARE

Earnings per common share is computed after deducting any preferred dividends, if applicable. 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. Basic earnings per common share is computed 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 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 and after the allocation of earnings to the participating securities. Antidilutive options are disregarded in earnings per share calculations.

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 June 30, | |
|---|-----------------------------|------------|
| | 2020 | 2019 |
| Basic income per common share: | | |
| Net income attributable to Meta Financial Group, Inc. | \$ 18,190 | \$ 29,291 |
| Weighted average common shares outstanding | 34,616,038 | 38,903,266 |
| Basic income per common share | \$ 0.53 | \$ 0.75 |
| Diluted income per common share: | | |
| Net income attributable to Meta Financial Group, Inc. | \$ 18,190 | \$ 29,291 |
| Weighted average common shares outstanding | 34,616,038 | 38,903,266 |
| Outstanding options - based upon the two-class method | 7,076 | 74,424 |
| Weighted average diluted common shares outstanding | 34,623,114 | 38,977,690 |
| Diluted income per common share | \$ 0.53 | \$ 0.75 |

| (Dollars in Thousands, Except Share and Per Share Data) | Nine Months Ended June 30, | |
|---|----------------------------|------------|
| | 2020 | 2019 |
| Basic income per common share: | | |
| Net income attributable to Meta Financial Group, Inc. | \$ 91,562 | \$ 76,809 |
| Weighted average common shares outstanding | 36,004,877 | 39,220,793 |
| Basic income per common share | \$ 2.54 | \$ 1.96 |
| Diluted income per common share: | | |
| Net income attributable to Meta Financial Group, Inc. | \$ 91,562 | \$ 76,809 |
| Weighted average common shares outstanding | 36,004,877 | 39,220,793 |
| Outstanding options - based upon the two-class method | 11,160 | 68,218 |
| Weighted average diluted common shares outstanding | 36,016,037 | 39,289,011 |
| Diluted income per common share | \$ 2.54 | \$ 1.95 |

NOTE 8. RENTAL EQUIPMENT, NET

Rental equipment consists of the following:

| (Dollars in Thousands) | June 30, 2020 | September 30, 2019 |
|---------------------------------------|---------------|--------------------|
| Computers and IT networking equipment | \$ 29,846 | \$ 37,352 |
| Motor vehicles and other | 122,995 | 98,149 |
| Office furniture and equipment | 2,576 | 2,875 |
| Solar panels and equipment | 118,583 | 116,505 |
| Total | 274,000 | 254,881 |
| Accumulated depreciation | (59,576) | (46,344) |
| Unamortized initial direct costs | 1,912 | — |
| Net book value | \$ 216,336 | \$ 208,537 |

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

(Dollars in Thousands)

| | | |
|--|----|----------------|
| Remaining in 2020 | \$ | 9,345 |
| 2021 | | 32,668 |
| 2022 | | 26,109 |
| 2023 | | 21,461 |
| 2024 | | 15,601 |
| Thereafter | | 27,915 |
| Total undiscounted future minimum lease payments receivable for operating leases | \$ | <u>133,099</u> |

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) | Nine Months Ended June 30, | |
|------------------------------|----------------------------|--------------|
| | 2020 | 2019 |
| Balance, beginning of period | \$ 29,494 | \$ 31,638 |
| Additions | 5,983 | 105 |
| Reductions: | | |
| Write-downs | 568 | 339 |
| Net proceeds from sale | 23,086 | 1,905 |
| Gain (loss) on sale | (5,039) | 15 |
| Total reductions | <u>28,693</u> | <u>2,229</u> |
| Balance, ending of period | \$ 6,784 | \$ 29,514 |

At June 30, 2020 and September 30, 2019, the Company had established a valuation allowance of \$0.5 million and \$0.1 million for repossessed assets, respectively. As of June 30, 2020 and September 30, 2019, the Company had no loans or leases in the process of foreclosure.

During the nine months ended June 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 occurred via public auction and consisted of 30-plus parcels of land. The sale of 30-plus parcels closed in the fiscal 2020 first quarter. The Company applied Subtopic ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets* to record the sale. The following table is a summary of the sale transaction, as reflected in the Company's financial statements:

| (Dollars in Thousands) | June 30, 2020 |
|----------------------------|-------------------|
| Purchase price | \$ 23,083 |
| Carrying value of OREO | 28,122 |
| Loss on sale | (5,039) |
| Deferred income recognized | 1,096 |
| Net impact | <u>\$ (3,943)</u> |

The Company recognized a \$5.0 million loss from the sale of foreclosed property during the nine months ended June 30, 2020, which is included in the "Gain (loss) on sale of other" line on the 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 during the nine months ended June 30, 2020.

NOTE 10. GOODWILL AND INTANGIBLE ASSETS

The Company held a total of \$309.5 million of goodwill at June 30, 2020. 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. The Company has changed its basis of presentation for segments. See Note 17. Segment Reporting for additional information on the Company's segment reporting.

Due to the ongoing economic impacts from the COVID-19 pandemic, the Company conducted a quantitative interim goodwill impairment assessment at June 30, 2020. The impairment assessment compares the fair value of each reporting unit with its carrying amount (including goodwill). If the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The Company's interim assessment estimated fair value for each reporting unit using an income approach that incorporated a discounted cash flow model that involves many management assumptions based upon future growth projections which include estimates of COVID-19 impacts on our various business lines. Assumptions include estimates of future after-tax cash flows, growth rates, and discount rates based upon industry and competitor analyses. Results of the interim assessment indicated no goodwill impairment for any of the reporting units as of June 30, 2020.

The changes in the carrying amount of the Company's goodwill and intangible assets for the nine months ended June 30, 2020 and 2019 were as follows:

| (Dollars in Thousands) | Consumer | Commercial | Corporate Services/Other | Total |
|---|------------------|-------------------|-----------------------------|-------------------|
| Goodwill | | | | |
| September 30, 2019 | \$ 87,145 | \$ 222,360 | \$ — | \$ 309,505 |
| Acquisitions | — | — | — | — |
| Impairment | — | — | — | — |
| June 30, 2020 | <u>\$ 87,145</u> | <u>\$ 222,360</u> | <u>\$ —</u> | <u>\$ 309,505</u> |
| September 30, 2018 | \$ 87,145 | \$ 216,125 | \$ — | \$ 303,270 |
| Acquisitions | — | — | — | — |
| Measurement Period Adjustments ⁽¹⁾ | — | 4,671 | — | 4,671 |
| Impairment | — | — | — | — |
| June 30, 2019 | <u>\$ 87,145</u> | <u>\$ 220,796</u> | <u>\$ —</u> | <u>\$ 307,941</u> |

⁽¹⁾ The Company recognized measurement period adjustments on provisional goodwill during the fiscal 2019 second quarter related to the Crestmark acquisition.

| (Dollars in Thousands) | Trademark ⁽¹⁾ | Non-Compete ⁽²⁾ | Customer Relationships ⁽³⁾ | All Others ⁽⁴⁾ | Total |
|----------------------------------|--------------------------|----------------------------|---------------------------------------|---------------------------|------------|
| Intangible Assets | | | | | |
| Balance as of September 30, 2019 | \$ 11,959 | \$ 827 | \$ 33,207 | \$ 6,817 | \$ 52,810 |
| Acquisitions during the period | — | — | — | 35 | 35 |
| Amortization during the period | (793) | (310) | (7,112) | (499) | (8,714) |
| Write-offs during the period | — | — | — | (157) | (157) |
| Balance as of June 30, 2020 | \$ 11,166 | \$ 517 | \$ 26,095 | \$ 6,196 | \$ 43,974 |
| Gross carrying amount | \$ 14,624 | \$ 2,480 | \$ 82,088 | \$ 10,112 | \$ 109,304 |
| Accumulated amortization | (3,458) | (1,963) | (45,745) | (3,726) | (54,892) |
| Accumulated impairment | — | — | (10,248) | (190) | (10,438) |
| Balance as of June 30, 2020 | \$ 11,166 | \$ 517 | \$ 26,095 | \$ 6,196 | \$ 43,974 |

⁽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 |
|----------------------------------|--------------------------|----------------------------|---------------------------------------|---------------------------|------------|
| Intangible Assets | | | | | |
| Balance as of September 30, 2018 | \$ 12,987 | \$ 1,297 | \$ 48,455 | \$ 7,980 | \$ 70,719 |
| Acquisitions during the period | — | — | — | 100 | 100 |
| Amortization during the period | (771) | (353) | (12,504) | (724) | (14,352) |
| Write-offs during the period | — | — | — | (314) | (314) |
| Balance as of June 30, 2019 | \$ 12,216 | \$ 944 | \$ 35,951 | \$ 7,042 | \$ 56,153 |
| Gross carrying amount | \$ 14,624 | \$ 2,480 | \$ 82,088 | \$ 10,688 | \$ 109,880 |
| Accumulated amortization | (2,408) | (1,536) | (35,889) | (2,987) | (42,820) |
| Accumulated impairment | — | — | (10,248) | (659) | (10,907) |
| Balance as of June 30, 2019 | \$ 12,216 | \$ 944 | \$ 35,951 | \$ 7,042 | \$ 56,153 |

⁽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 three months of fiscal 2020 and subsequent fiscal years at June 30, 2020 was as follows:

| (Dollars in Thousands) | |
|---|-----------|
| Remaining in 2020 | \$ 2,283 |
| 2021 | 8,545 |
| 2022 | 6,419 |
| 2023 | 5,101 |
| 2024 | 4,383 |
| 2025 | 3,826 |
| Thereafter | 13,417 |
| Total anticipated intangible amortization | \$ 43,974 |

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 three and nine months ended June 30, 2020 or the three months ended June 30, 2019. There was \$0.1 million in impairments to intangible assets during the nine months ended June 30, 2019.

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

Operating lease ROU assets, included in other assets, were \$26.5 million at June 30, 2020.

Operating lease liabilities, included in accrued expenses and other liabilities, were \$28.0 million at June 30, 2020.

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

| (Dollars in Thousands) | |
|--|-----------|
| Remaining in 2020 | \$ 958 |
| 2021 | 3,742 |
| 2022 | 3,479 |
| 2023 | 2,799 |
| 2024 | 2,808 |
| Thereafter | 18,520 |
| Total undiscounted future minimum lease payments | 32,306 |
| Discount | (4,347) |
| Total operating lease liabilities | \$ 27,959 |

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

| | June 30, 2020 |
|---|---------------|
| Weighted-average discount rate | 2.35 % |
| Weighted-average remaining lease term (years) | 11.51 |

The components of total lease costs for operating leases, included in occupancy and equipment noninterest expense, were as follows:

| (Dollars in Thousands) | | Nine Months Ended June 30, 2020 |
|---------------------------------------|----|------------------------------------|
| Lease expense | \$ | 2,533 |
| Short-term and variable lease cost | | 452 |
| Sublease income | | (552) |
| Total lease cost for operating leases | \$ | 2,433 |

NOTE 12. STOCKHOLDERS' EQUITY

Repurchase of Common Stock

During the nine months ended June 30, 2020, the Company repurchased 3,498,394 of its shares, at an average price of \$34.34, which exhausted the remaining shares available for repurchase by the Company under the March 26, 2019 share repurchase program. The Company's Board of Directors authorized the November 20, 2019 share repurchase program to repurchase up to an additional 7,500,000 shares of the Company's outstanding common stock through December 31, 2022. During the three months ended June 30, 2020, the Company did not repurchase shares as part of the share repurchase program because the Company suspended its share repurchase activity in March 2020.

For the nine months ended June 30, 2020, and 2019, the Company also repurchased 89,613 and 90,264 shares, or \$3.0 million and \$3.0 million of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock.

Repurchase of Treasury Stock

On June 25, 2019, the Company retired 114,558 shares of common stock held in treasury. The Company accounts for the retirement of repurchased shares, including treasury stock, 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. No shares of common stock held in treasury were retired in the nine months ended June 30, 2020.

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 and nonvested (restricted) shares 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 granted under the Company's incentive plan is equal to the fair market value of the underlying stock at the grant date. The Company has elected, with the adoption of ASU 2016-09, to record forfeitures as they occur.

The following tables show the activity of options and nonvested (restricted) shares granted, exercised, or forfeited under the 2002 Omnibus Incentive Plan for the nine months ended June 30, 2020:

| (Dollars in Thousands, Except Per Share Data) | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Yrs) | Aggregate Intrinsic Value |
|---|------------------|---------------------------------|---|---------------------------|
| Options outstanding, September 30, 2019 | 59,835 | \$ 8.06 | 1.54 | \$ 1,469 |
| Granted | — | — | — | — |
| Exercised | (41,949) | 6.98 | 1.01 | 866 |
| Forfeited or expired | — | — | — | — |
| Options outstanding, June 30 2020 | <u>17,886</u> | <u>\$ 10.60</u> | <u>0.25</u> | <u>\$ 135</u> |
| Options exercisable, June 30, 2020 | <u>17,886</u> | <u>\$ 10.60</u> | <u>0.25</u> | <u>\$ 135</u> |

| (Dollars in Thousands, Except Per Share Data) | Number of Shares | Weighted Average Fair Value at Grant |
|--|------------------|--------------------------------------|
| Nonvested shares outstanding, September 30, 2019 | 926,122 | \$ 29.54 |
| Granted | 191,372 | 32.32 |
| Vested | (276,193) | 30.04 |
| Forfeited or expired | (9,584) | 31.48 |
| Nonvested shares outstanding, June 30, 2020 | <u>831,717</u> | <u>\$ 29.99</u> |

At June 30, 2020, stock-based compensation expense not yet recognized in income totaled \$9.4 million, which is expected to be recognized over a weighted average remaining period of 2.46 years.

NOTE 14. INCOME TAXES

The Company recorded an income tax expense of \$3.9 million for the nine months ended June 30, 2020, resulting in an effective tax rate of 3.91%, compared to an income tax benefit of \$3.2 million, or an effective tax rate of (4.20%), for the nine months ended June 30, 2019. 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) | Nine Months Ended June 30, | |
|--|----------------------------|------------|
| | 2020 | 2019 |
| Provision at statutory rate | \$ 20,041 | \$ 15,449 |
| Tax-exempt income | (936) | (2,360) |
| State income taxes | 4,475 | 3,243 |
| Interim period effective rate adjustment | (8,850) | 1,397 |
| Tax credit investments, net - federal | (9,863) | (22,484) |
| Research tax credit | (1,709) | — |
| IRC 162(m) nondeductible compensation | 1,250 | 1,612 |
| Other, net | (538) | (101) |
| Income tax expense (benefit) | \$ 3,870 | \$ (3,244) |
| Effective tax rate | 3.91 % | (4.20)% |

The Company does not expect significant income tax impacts due to the CARES Act, which was signed in response to the COVID-19 pandemic.

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 June 30, 2020 and September 30, 2019, unfunded loan commitments approximated \$1.12 billion and \$978.1 million, 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 June 30, 2020 or September 30, 2019. The Company had no commitments to sell securities at June 30, 2020 or September 30, 2019.

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. At June 30, 2020 and at September 30, 2019, the Company had an allowance for credit losses on off-balance sheet credit exposures of \$0.1 million. This amount is maintained as a separate liability account within other liabilities.

Since certain commitments to make loans and to fund lines of credit and loans in process 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 the right to appeal once the ruling is finalized. The Bank intends to continue to vigorously defend this claim, if appealed. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation.

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 was served on December 24, 2018, with a lawsuit captioned The Ohio Valley Bank Company v. MetaBank dba Refund Advantage, Case No. 18 CV 134 in the Court of Common Pleas, Gallia County, Ohio. This action alleges that MetaBank breached a contract with The Ohio Valley Bank Company by terminating the contract before the term expired, resulting in over \$3.0 million in damages. This matter was settled between the parties upon terms agreeable to the Bank, and has been dismissed.

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 | |
|---|-----------|-----------|------------|-----------|--------------------------|----------|----------------------|------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Three Months Ended June 30, | | | | | | | | |
| Net interest income ⁽¹⁾ | \$ 29,507 | \$ 22,981 | \$ 36,104 | \$ 39,688 | \$ (3,474) | \$ 4,299 | \$ 62,137 | \$ 66,968 |
| Noninterest income: | | | | | | | | |
| Refund transfer product fees | 4,595 | 6,697 | — | — | — | — | 4,595 | 6,697 |
| Tax advance product fees ⁽¹⁾ | 28 | 34 | — | — | — | — | 28 | 34 |
| Payment card and deposit fees | 21,302 | 21,377 | — | — | — | — | 21,302 | 21,377 |
| Other bank and deposit fees | — | — | 213 | 296 | 1 | 199 | 214 | 495 |
| Rental income ⁽¹⁾ | 5 | 5 | 11,226 | 9,091 | — | 290 | 11,231 | 9,386 |
| Gain on sale of securities available-for-sale, net ⁽¹⁾ | — | — | — | — | — | 440 | — | 440 |
| Gain on sale of other ⁽¹⁾ | — | 115 | 1,214 | 2,498 | — | 7 | 1,214 | 2,620 |
| Other income ⁽¹⁾ | 324 | 344 | 1,267 | 934 | 873 | 1,463 | 2,464 | 2,741 |
| Total noninterest income | 26,254 | 28,572 | 13,920 | 12,819 | 874 | 2,399 | 41,048 | 43,790 |
| Revenue | \$ 55,761 | \$ 51,553 | \$ 50,024 | \$ 52,507 | \$ (2,600) | \$ 6,698 | \$ 103,185 | \$ 110,758 |

⁽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) | Consumer | | Commercial | | Corporate Services/Other | | Consolidated Company | |
|---|------------|------------|------------|------------|--------------------------|-----------|----------------------|------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Nine Months Ended June 30, | | | | | | | | |
| Net interest income ⁽¹⁾ | \$ 69,684 | \$ 56,484 | \$ 112,866 | \$ 113,604 | \$ 11,975 | \$ 28,502 | \$ 194,525 | \$ 198,590 |
| Noninterest income: | | | | | | | | |
| Refund transfer product fees | 33,726 | 38,559 | — | — | — | — | 33,726 | 38,559 |
| Tax advance product fees ⁽¹⁾ | 31,840 | 34,757 | — | — | — | — | 31,840 | 34,757 |
| Payment card and deposit fees | 65,957 | 66,855 | — | — | — | — | 65,957 | 66,855 |
| Other bank and deposit fees | — | — | 759 | 872 | 324 | 577 | 1,083 | 1,449 |
| Rental income ⁽¹⁾ | 14 | 5 | 33,354 | 29,871 | 1,314 | 291 | 34,682 | 30,167 |
| Gain on sale of securities available-for-sale, net ⁽¹⁾ | — | — | — | — | — | 649 | — | 649 |
| Gain on divestitures ⁽¹⁾ | — | — | — | — | 19,275 | — | 19,275 | — |
| (Loss) gain on sale of other ⁽¹⁾ | (19) | 173 | 6,131 | 5,874 | (5,143) | 70 | 969 | 6,117 |
| Other income ⁽¹⁾ | 2,709 | 871 | 4,178 | 3,789 | 4,625 | 3,352 | 11,512 | 8,012 |
| Total noninterest income | 134,227 | 141,220 | 44,422 | 40,406 | 20,395 | 4,939 | 199,044 | 186,565 |
| Revenue | \$ 203,911 | \$ 197,704 | \$ 157,288 | \$ 154,010 | \$ 32,370 | \$ 33,441 | \$ 393,569 | \$ 385,155 |

⁽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 June 30, 2020 and September 30, 2019, 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 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 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 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 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.

In the Annual Report on Form 10-K for the fiscal year ended September 30, 2019, the Company reported its results of operations through three business segments: *Payments*, *Banking*, and *Corporate Services/Other*. Beginning October 1, 2019, segments are now aligned with the new management operating structure implemented by the Company for fiscal year 2020. The Company accordingly has changed its basis of presentation for segments, and following such change, 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, formerly reported in the *Payments* segment, are now included in the *Consumer* segment. The Warehouse Finance, Consumer Credit Products and ClearBalance business lines, previously reported in the *Banking* segment, are now included in the *Consumer* segment. The Crestmark and AFS divisions, formerly reported in the *Banking* segment, are now included in the *Commercial* segment. The Community Bank division and Student Loan lending portfolio, previously reported in the *Banking* segment, are now 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. Prior periods have been reclassified to conform to the current period presentation. The Company does not report indirect general and administrative expenses in the *Consumer* and *Commercial* segments.

The following tables present segment data for the Company for the three and nine months ended:

| (Dollars in Thousands) | Consumer | Commercial | Corporate Services/Other | Total |
|---|------------------|------------------|-----------------------------|------------------|
| Three Months Ended June 30, 2020 | | | | |
| Net interest income | \$ 29,507 | \$ 36,104 | \$ (3,474) | \$ 62,137 |
| Provision for loan and lease losses | (267) | 7,946 | 7,414 | 15,093 |
| Noninterest income | 26,254 | 13,920 | 874 | 41,048 |
| Noninterest expense | 15,249 | 26,729 | 29,263 | 71,241 |
| Income (loss) before income tax expense (benefit) | 40,779 | 15,349 | (39,277) | 16,851 |
| Total assets | 650,814 | 2,690,719 | 5,437,493 | 8,779,026 |
| Total goodwill | 87,145 | 222,360 | — | 309,505 |
| Total deposits | 6,767,516 | 9,243 | 813,566 | 7,590,325 |

| (Dollars in Thousands) | Consumer | Commercial | Corporate Services/Other | Total |
|---|------------------|------------------|-----------------------------|------------------|
| Nine Months Ended June 30, 2020 | | | | |
| Net interest income | \$ 69,684 | \$ 112,866 | \$ 11,975 | \$ 194,525 |
| Provision for loan and lease losses | 20,348 | 23,641 | 11,807 | 55,796 |
| Noninterest income | 134,227 | 44,422 | 20,395 | 199,044 |
| Noninterest expense | 62,567 | 80,815 | 95,386 | 238,768 |
| Income (loss) before income tax expense (benefit) | 120,996 | 52,832 | (74,823) | 99,005 |
| Total assets | 650,814 | 2,690,719 | 5,437,493 | 8,779,026 |
| Total goodwill | 87,145 | 222,360 | — | 309,505 |
| Total deposits | 6,767,516 | 9,243 | 813,566 | 7,590,325 |

| (Dollars in Thousands) | Consumer | Commercial | Corporate Services/Other | Total |
|---|-----------|------------|--------------------------|-----------|
| Three Months Ended June 30, 2019 | | | | |
| Net interest income | \$ 22,981 | \$ 39,688 | \$ 4,299 | \$ 66,968 |
| Provision for loan and lease losses | 1,121 | 6,501 | 1,490 | 9,112 |
| Noninterest income | 28,572 | 12,819 | 2,399 | 43,790 |
| Noninterest expense | 14,730 | 28,564 | 29,174 | 72,468 |
| Income (loss) before income tax expense (benefit) | 35,702 | 17,442 | (23,966) | 29,178 |
| Total assets | 663,579 | 2,320,589 | 3,116,904 | 6,101,072 |
| Total goodwill | 87,145 | 220,796 | — | 307,941 |
| Total deposits | 2,811,582 | 5,988 | 1,957,644 | 4,775,214 |

| (Dollars in Thousands) | Consumer | Commercial | Corporate Services/Other | Total |
|---|-----------|------------|--------------------------|------------|
| Nine Months Ended June 30, 2019 | | | | |
| Net interest income | \$ 56,484 | \$ 113,604 | \$ 28,502 | \$ 198,590 |
| Provision for loan losses | 25,739 | 17,441 | 8,349 | 51,529 |
| Noninterest income | 141,220 | 40,406 | 4,939 | 186,565 |
| Noninterest expense | 62,834 | 95,567 | 98,615 | 257,016 |
| Income (loss) before income tax expense (benefit) | 109,131 | 41,002 | (73,523) | 76,610 |
| Total assets | 663,579 | 2,320,589 | 3,116,904 | 6,101,072 |
| Total goodwill | 87,145 | 220,796 | — | 307,941 |
| Total deposits | 2,811,582 | 5,988 | 1,957,644 | 4,775,214 |

NOTE 18. FAIR VALUES OF FINANCIAL INSTRUMENTS

Accounting Standards Codification ("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. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

There were no transfers between levels of the fair value hierarchy at June 30, 2020 or September 30, 2019.

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 values of debt securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), or valuation 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 2 inputs). The Company considers these valuations supplied by a third-party provider, which utilizes several sources for valuing fixed-income securities. These sources include Interactive Data Corporation, Reuters, Standard and Poor's, Bloomberg Financial Markets, Street Software Technology and the third-party provider's own matrix and desk pricing. The Company, no less than annually, reviews the third-party provider's methods and source's methodology for reasonableness and to ensure an understanding of inputs utilized in determining fair value. Sources utilized by the third-party provider include but are not limited to pricing models that vary based on asset class and include available trade, bid, and other market information. This methodology includes but is not limited to broker quotes, proprietary models, descriptive terms and conditions databases, as well as extensive quality control programs. Monthly, the Company receives and compares prices provided by multiple securities dealers and pricing providers to validate the accuracy and reasonableness of prices received from the third-party provider; and our Investment Committee reviews mark-to-market changes in the securities portfolio for reasonableness.

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 June 30, 2020 | | | |
|---|-----------------------------|-------------|---------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Debt securities AFS | | | | |
| SBA securities | \$ 170,267 | \$ — | \$ 170,267 | \$ — |
| Obligations of states and political subdivisions | 843 | — | 843 | — |
| Non-bank qualified obligations of states and political subdivisions | 331,324 | — | 331,324 | — |
| Asset-backed securities | 323,145 | — | 323,145 | — |
| Mortgage-backed securities | 338,250 | — | 338,250 | — |
| Total debt securities AFS | \$ 1,163,829 | \$ — | \$ 1,163,829 | \$ — |
| Common equities and mutual funds ⁽¹⁾ | \$ 3,012 | \$ 3,012 | \$ — | \$ — |
| Non-marketable equity securities ⁽²⁾ | \$ 2,741 | \$ — | \$ — | \$ — |

⁽¹⁾ Equity securities at fair value are included within other assets on the consolidated statement of financial condition at June 30, 2020 and September 30, 2019.

⁽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, 2019 | | | |
|---|----------------------------------|-------------|---------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Debt securities AFS | | | | |
| SBA securities | \$ 185,982 | \$ — | \$ 185,982 | \$ — |
| Obligations of states and political subdivisions | 874 | — | 874 | — |
| Non-bank qualified obligations of states and political subdivisions | 400,557 | — | 400,557 | — |
| Asset-backed securities | 302,534 | — | 302,534 | — |
| Mortgage-backed securities | 382,546 | — | 382,546 | — |
| Total debt securities AFS | \$ 1,272,493 | \$ — | \$ 1,272,493 | \$ — |
| Common equities and mutual funds ⁽¹⁾ | \$ 2,606 | \$ 2,606 | \$ — | \$ — |
| Non-marketable equity securities ⁽²⁾ | \$ 1,669 | \$ — | \$ — | \$ — |

⁽¹⁾ Equity securities at fair value are included within other assets on the consolidated statement of financial condition at June 30, 2020 and September 30, 2019.

⁽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 considered impaired, an allowance for loan and lease losses is established. Once a loan or lease is identified as individually impaired, management measures impairment in accordance with ASC 310, *Receivables*. See Note 5. Loans and Leases, Net for further information.

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 June 30, 2020 | | | |
|---------------------------------------|-----------------------------|-------------|-------------|------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired loans and leases, net | | | | |
| Commercial finance | \$ 14,493 | \$ — | \$ — | \$ 14,493 |
| Total National Lending | 14,493 | — | — | 14,493 |
| Commercial real estate and operating | 20 | — | — | 20 |
| Total Community Banking | 20 | — | — | 20 |
| Total impaired loans and leases, net | 14,513 | — | — | 14,513 |
| Foreclosed assets, net | 6,784 | — | — | 6,784 |
| Total | \$ 21,297 | \$ — | \$ — | \$ 21,297 |

| (Dollars in Thousands) | Fair Value At September 30, 2019 | | | |
|---------------------------------------|----------------------------------|-------------|-------------|------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired loans and leases, net | | | | |
| Commercial finance | \$ 8,707 | \$ — | \$ — | \$ 8,707 |
| Total National Lending | 8,707 | — | — | 8,707 |
| Total impaired loans and leases, net | 8,707 | — | — | 8,707 |
| Foreclosed assets, net | 29,494 | — | — | 29,494 |
| Total | \$ 38,201 | \$ — | \$ — | \$ 38,201 |

Quantitative Information About Level 3 Fair Value Measurements

| (Dollars in Thousands) | Fair Value at June 30, 2020 | Fair Value at September 30, 2019 | Valuation Technique | Unobservable Input | Range of Inputs |
|--------------------------------|-----------------------------|----------------------------------|---------------------|---------------------------------|-----------------|
| Impaired loans and leases, net | \$ 14,513 | 8,707 | Market approach | Appraised values ⁽¹⁾ | 4% - 10% |
| Foreclosed assets, net | \$ 6,784 | 29,494 | 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 30%.

The following tables disclose the Company's estimated fair value amounts of its financial instruments at the dates set forth below. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company at June 30, 2020 and September 30, 2019, as more fully described below. The operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the Bank's capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

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

| (Dollars in Thousands) | June 30, 2020 | | | | |
|--|-----------------|----------------------|--------------|-----------|-----------|
| | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Cash and cash equivalents | \$ 3,108,141 | \$ 3,108,141 | \$ 3,108,141 | \$ — | \$ — |
| Debt securities available for sale | 1,163,829 | 1,163,829 | — | 1,163,829 | — |
| Debt securities held to maturity | 104,587 | 103,832 | — | 103,832 | — |
| Common equities and mutual funds ⁽¹⁾ | 3,012 | 3,012 | 3,012 | — | — |
| Non-marketable equity securities ⁽¹⁾⁽²⁾ | 13,741 | 13,741 | — | 11,000 | — |
| Loans held for sale | 79,905 | 79,905 | — | 79,905 | — |
| Loans and leases receivable | 3,496,709 | 3,488,875 | — | — | 3,488,875 |
| Federal Reserve Bank and Federal Home Loan Bank stocks | 31,836 | 31,836 | — | 31,836 | — |
| Accrued interest receivable | 17,545 | 17,545 | 17,545 | — | — |
| Financial liabilities | | | | | |
| Deposits | 7,590,325 | 7,592,382 | 7,037,218 | 555,164 | — |
| Federal Home Loan Bank advances | 110,000 | 111,877 | — | 111,877 | — |
| Other short- and long-term borrowings | 99,781 | 100,342 | — | 100,342 | — |
| Accrued interest payable | 4,332 | 4,332 | 4,332 | — | — |

⁽¹⁾ Equity securities at fair value are included within other assets on the consolidated statement of financial condition at June 30, 2020 and September 30, 2019.

⁽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.

| | September 30, 2019 | | | | |
|--|--------------------|-------------------------|------------|-----------|-----------|
| (Dollars in Thousands) | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Cash and cash equivalents | \$ 126,545 | \$ 126,545 | \$ 126,545 | \$ — | \$ — |
| Debt securities available for sale | 1,272,493 | 1,272,493 | — | 1,272,493 | — |
| Debt securities held to maturity | 134,764 | 133,470 | — | 133,470 | — |
| Common equities and mutual funds ⁽¹⁾ | 2,606 | 2,606 | 2,606 | — | — |
| Non-marketable equity securities ⁽¹⁾⁽²⁾ | 8,169 | 8,169 | — | 6,500 | — |
| Loans held for sale | 148,777 | 148,777 | — | 148,777 | — |
| Loans and leases receivable | 3,651,413 | 3,622,597 | — | — | 3,622,597 |
| Federal Home Loan Bank stock | 30,916 | 30,916 | — | 30,916 | — |
| Accrued interest receivable | 20,400 | 20,400 | 20,400 | — | — |
| Financial liabilities | | | | | |
| Deposits | 4,337,005 | 4,338,510 | 2,920,516 | 1,417,994 | — |
| Overnight federal funds purchased | 642,000 | 642,000 | 642,000 | — | — |
| Federal Home Loan Bank advances | 110,000 | 110,691 | — | 110,691 | — |
| Other short- and long-term borrowings | 109,857 | 113,876 | — | 113,876 | — |
| Accrued interest payable | 9,414 | 9,414 | 9,414 | — | — |

⁽¹⁾ Equity securities at fair value are included within other assets on the consolidated statement of financial condition at June 30, 2020 and September 30, 2019.

⁽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.

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at June 30, 2020 and September 30, 2019.

CASH AND CASH EQUIVALENTS

The carrying amount of cash and short-term investments is assumed to approximate the fair value.

DEBT SECURITIES AVAILABLE FOR SALE AND EQUITY SECURITIES

Debt securities available for sale and equity securities are recorded at fair value on a recurring basis. Fair values for these investment securities are based on obtaining quoted prices on nationally recognized securities exchanges, or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. Non-marketable equity securities are measured at fair value using NAV per share (or its equivalent) as a practical expedient.

LOANS HELD FOR SALE

The carrying amount of loans held for sale is assumed to approximate the fair value.

LOANS AND LEASES, NET

The fair values of loans and leases were estimated using an exit price methodology. The exit price estimation of fair value is based on the present value of expected cash flows, which are based on the contractual terms of the loans, adjusted for prepayments and a discount rate based on the relative risk of the cash flows. Other considerations include the loan type, remaining life of the loan and credit risk.

FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCKS

The fair value of FRB and FHLB stock is assumed to approximate book value since the Company is only able to redeem this stock at par value.

ACCRUED INTEREST RECEIVABLE

The carrying amount of accrued interest receivable is assumed to approximate the fair value.

DEPOSITS

The carrying values of noninterest-bearing checking deposits, interest-bearing checking deposits, savings, money markets, and wholesale non-maturing deposits are assumed to approximate fair value since deposits are immediately withdrawable without penalty. The fair value of time certificate deposits and wholesale certificate of deposits are estimated using a discounted cash flows calculation that applies the FHLB Des Moines curve to aggregated expected maturities of time deposits. In accordance with Subtopic 825-10, *Financial Instruments*, no value has been assigned to the Company's long-term relationships with its deposit customers (core value of deposits intangible) as such intangibles are not financial instruments as defined under Subtopic 825-10.

OVERNIGHT FEDERAL FUNDS PURCHASED

The carrying amount of federal funds purchased is assumed to approximate the fair value.

FEDERAL HOME LOAN BANK ADVANCES

The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates for advances with similar terms and remaining maturities.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE, SUBORDINATED DEBENTURES AND OTHER BORROWINGS

The fair value of these instruments was estimated by discounting the expected future cash flows using derived interest rates approximating market over the contractual maturity of such borrowings.

ACCRUED INTEREST PAYABLE

The carrying amount of accrued interest payable is assumed to approximate the fair value.

LIMITATIONS

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instrument. Additionally, fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business, customer relationships and the value of assets and liabilities that are not considered financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time. Furthermore, since no market exists for certain of the Company's financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with a high level of precision. Changes in assumptions as well as tax considerations could significantly affect the estimates. Accordingly, based on the limitations described above, 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.

NOTE 19. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after June 30, 2020. During this period, up to the filing date of this Quarterly Report on Form 10-Q, management identified the following subsequent events:

- On August 5, 2020, MetaBank, N.A., a wholly-owned subsidiary of the Company ("MetaBank") entered into a three-year program management agreement (the "PMA") with Emerald Financial Services, LLC ("EFS"), a wholly owned indirect subsidiary of H&R Block, Inc. ("H&R Block"), pursuant to which MetaBank will serve as a facilitator for H&R Block's suite of financial services products, which include: Emerald Prepaid MasterCard®, Refund Transfers, Refund Advances, Emerald Advance® lines of credit, and other products through H&R Block's distribution channels. EFS has the right to terminate the PMA under certain circumstances, including if the Bank should lose its exemption from certain provisions of the Dodd-Frank Act known as the "Durbin Amendment." Based on current projections (or forecasts) MetaBank does not anticipate losing its Durbin Amendment exemption during the initial term of the PMA. Upon termination of the PMA or any of the related product schedules, EFS has the right to purchase or arrange the purchase of all of the affected accounts related to its ongoing product offerings.
- On August 4, 2020, the Company sold an additional \$58.6 million of the retained Community Bank portfolio to Central Bank. The sale did not result in any material gain to the Company. The loans included in the sale were classified as held for sale for the quarter ended June 30, 2020.
- As a result of interagency guidance issued on March 22, 2020 encouraging companies to work with customers impacted by COVID-19, the Company has granted deferral of payments or has made other COVID-19 related modifications. As of July 31, 2020, loans and leases totaling \$175.8 million were still in their deferment period and \$33.9 million of other COVID-19 related modifications were still active.

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; customer retention; loan and other product demand; expectations concerning acquisitions and divestitures; new products and services, including those offered by the Meta Payment Systems, Refund Advantage, EPS Financial and Specialty Consumer Services divisions; credit quality and adequacy of reserves; 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, 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 conducts operations; 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 such as the CARES Act 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, particularly in light of our growing deposit base, a portion of which has been characterized as "brokered;" changes in consumer spending and saving habits; 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 speak only as of the date hereof. 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, 2019, 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 June 30, 2020, compared to September 30, 2019, and the consolidated results of operations for the three and nine months ended June 30, 2020 and 2019. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2019 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, 2019.

EXECUTIVE SUMMARY

COVID-19 Business Update

The Company continues to focus on the well-being of its employees, partners and customers. Preventative health measures remain in place to protect employees and customers including mandating remote work options and social distancing measures where possible, restricting non-essential business travel and enhancing preventative cleaning services at all office locations. The Company's COVID-19 Crisis Command Center consisting of leadership and business continuity planning resources throughout the organization continues to effectively monitor possible interruptions related to the pandemic and to ensure business continuity.

The Company is participating in the PPP, which is being administered by the SBA. As of June 30, 2020, the Company had 686 loans outstanding with a total of \$215.5 million in loan balances that were originated as part of the program.

From a credit perspective, the Company continues to monitor each of its lending portfolios through these unprecedented times. Significant focus has been placed on the Company's hospitality loans and its small ticket equipment finance relationships. The credit management team has increased the monitoring of these relationships and has been in regular contact with these borrowers.

The Company's community bank hospitality loan balances increased to \$169.0 million as of June 30, 2020 from \$160.1 million as of March 31, 2020 and based on the most recently obtained appraisals, the average loan-to-value ratio on those loans improved to 60% at June 30, 2020 from 61% at March 31, 2020. 67% of the loan balances for these hotel relationships received PPP loans and 51% received some form of COVID-19 related payment deferral modification.

As of June 30, 2020, the Company had \$245.9 million in small ticket equipment finance balances, of which \$217.3 million were categorized within term lending and \$28.6 million were categorized within lease financing. 27% of the loan balances on these small ticket equipment finance relationships received some form of COVID-19 related payment deferral or other modifications.

The Company has granted deferral payments on a total of \$352.1 million of loan, lease and rental equipment balances through June 30, 2020 as a result of interagency guidance issued on March 22, 2020 encouraging companies to work with customers impacted by COVID-19. As of June 30, 2020, \$292.2 million of those balances were still in their deferment period. In addition, the Company has made other COVID-19 related modifications on a total of \$52.9 million, of which \$34.6 million were still active as of June 30, 2020. The majority of the other modifications were related to adjusting the type or amount of the customer's payments.

The Company increased its allowance for loan and lease losses during the fiscal third quarter primarily as a result of the ongoing economic uncertainty related to COVID-19 pandemic. The Company will continue to diligently monitor the allowance for loan and lease losses and adjust as necessary in future periods to maintain an appropriate and supportable level.

The Company's capital position remained strong as of June 30, 2020, even while absorbing the temporary impact from the Economic Impact Payment ("EIP") program, as described further below. As of June 30, 2020, the Bank's capital leverage ratio based on average assets was 6.89%. In addition, the Company has options available that can be used to effectively manage capital levels through these turbulent times, including a very strong and flexible balance sheet. The Company's capital leverage ratio was impacted by approximately 278 basis points due to the increase in total asset balances as a result of the EIP program.

For additional related information, see "Regulation and Supervision" and "Risk Factors."

Economic Impact Payment Program Update

On April 29, 2020, the Bank entered into an amendment of its existing agreement with the U.S. Department of the Treasury's Bureau of the Fiscal Service ("Fiscal Service") to provide debit card services to support the distribution of a segment of the Economic Impact Payments payable by the Internal Revenue Service under the CARES Act.

Under the EIP program, 3.6 million cards were delivered with total loads of \$6.42 billion. As a result of the program, the Company saw a quick influx of deposits to its balance sheet in mid-May 2020 with limited visibility into the duration of those deposits. While this program's impact to earnings was negligible, it did have a significant impact on cash and deposit balances, leading to a net drag on the net interest margin along with pressuring the Company's leverage capital ratios.

The total balances remaining on the EIP cards as of June 30, 2020 were \$2.68 billion and \$1.72 billion as of July 31, 2020. The funds on these cards increased the Company's quarterly average noninterest deposit balances by \$2.32 billion, leading to an overall improvement in cost of deposits. This short term influx of deposits also led to excess cash balances held at the Federal Reserve during the current period, which yielded approximately 10 basis points in interest income, and increased the quarterly average of interest-earning assets compared to previous periods. This increase of lower yielding cash balances resulted in a drag to the overall yield on total interest-earning assets during the current period. The net impact to NIM was approximately 140 basis points.

Conversions of the Bank and the Company

Following receipt of the necessary regulatory approvals from the Office of the Comptroller of the Currency and the Federal Reserve Bank of Minneapolis (the "FRB"), on April 1, 2020, the Bank converted from a federal thrift charter to a national bank charter and the Company converted from a savings and loan holding company to a bank holding company that has elected treatment as a financial holding company. The Bank now operates under the name "MetaBank, National Association". The Company and the Bank effected these conversions in order to more closely align the Bank's regulatory charter to its current and planned focus on national business that provides innovative financial solutions to consumers and businesses in niche markets often overlooked by traditional banks. See "Regulation and Supervision" and "Risk Factors" for additional related information.

Business Developments

The sale of MetaBank's Community Bank division to Central Bank closed on February 29, 2020 and included all of the Community Bank's deposits, branch locations, fixed assets, employees, and a portion of the Community Bank's loan portfolio. The final deposit and loan balances included in the transaction totaled \$290.5 million and \$268.6 million, respectively. The remaining Community Bank loans, which totaled \$799.4 million at June 30, 2020, have been retained by the Company and are under a servicing agreement with Central Bank. As of June 30, 2020 the Company also held \$48.1 million in Community Bank loan balances as held for sale.

On August 5, 2020, MetaBank, N.A., a wholly-owned subsidiary of the Company ("MetaBank") entered into a three-year program management agreement (the "PMA") with Emerald Financial Services, LLC ("EFS"), a wholly owned indirect subsidiary of H&R Block, Inc. ("H&R Block"), pursuant to which MetaBank will serve as a facilitator for H&R Block's suite of financial services products, which include: Emerald Prepaid MasterCard®, Refund Transfers, Refund Advances, Emerald Advance® lines of credit, and other products through H&R Block's distribution channels. EFS has the right to terminate the PMA under certain circumstances, including if the Bank should lose its exemption from certain provisions of the Dodd-Frank Act known as the "Durbin Amendment." Based on current projections (or forecasts) MetaBank does not anticipate losing its Durbin Amendment exemption during the initial term of the PMA. Upon termination of the PMA or any of the related product schedules, EFS has the right to purchase or arrange the purchase of all of the affected accounts related to its ongoing product offerings.

On June 23, 2020, Brett Pharr was promoted to Co-President and Chief Operating Officer of MetaBank to better align business lines with Meta's strategic initiatives. Brad Hanson remains Co-President and Chief Executive Officer of MetaBank and President and Chief Executive Officer of the Company.

During the fiscal 2020 third quarter, the Company extended its agreement with Blackhawk Network, Inc. ("BlackHawk") through 2040. Blackhawk is a leading prepaid and payments company, which supports the program management and distribution of gift cards, prepaid telecom products and financial service products in a number of different retail, digital and incentive channels.

Financial Highlights

The Company recorded net income of \$18.2 million, or \$0.53 per diluted share, for the three months ended June 30, 2020, compared to net income of \$29.3 million, or \$0.75 per diluted share, that was recorded for the fiscal 2019 third quarter. Total revenue for the fiscal 2020 third quarter was \$103.2 million, compared to \$110.8 million for the same quarter in fiscal 2019, a decrease of 7%.

During the fiscal 2020 third quarter, the Company recognized net interest income of \$62.1 million, net interest margin ("NIM") of 3.28% and net interest margin, tax-equivalent ("NIM, TE") of 3.31%. The Company's average gross loans and leases increased by \$23.8 million, or 1%, while average noninterest-bearing deposits increased by \$3.35 billion, or 123%, when compared to the same period in fiscal 2019. Average deposits from the payments divisions increased nearly 131% to \$6.32 billion when compared to the same period in fiscal 2019. The significant increase in deposits led to excess cash balances held at the Federal Reserve during the third quarter of fiscal 2020. This increase in lower yielding cash balances resulted in a net drag to the net interest margin of approximately 140 basis points. Overall, the Company's cost of funds averaged 0.28% during the fiscal 2020 third quarter, compared to 1.14% during the prior year period, primarily due to a decrease in overnight borrowings rates along with an increase in the average balance of the Company's noninterest-bearing deposits.

Noninterest income for the three months ended June 30, 2020 was \$41.0 million, compared to \$43.8 million for the same period of the prior year. This year-over-year decrease was primarily due to lower total tax product fee income and a reduction in gains on loan sales, partially offset by an increase in rental income. For the three months ended June 30, 2020, noninterest expense was \$71.2 million, compared to \$72.5 million for the same period of the prior year. The decrease in noninterest expense over the prior year fiscal third quarter was primarily driven by lower compensation and benefits, intangible amortization, total tax product expense, and occupancy and equipment expenses, partially offset by higher card processing expenses and operating lease equipment depreciation.

FINANCIAL CONDITION

At June 30, 2020, the Company's total assets increased by \$2.60 billion to \$8.78 billion compared to September 30, 2019, primarily due to a \$2.98 billion increase in cash and cash equivalents partially offset by decreases in loans and leases and investments.

Total cash and cash equivalents was \$3.11 billion at June 30, 2020, increasing from \$126.5 million at September 30, 2019. The increase stemmed from the large influx of EIP deposits in the third quarter of fiscal 2020. The Company maintains its cash investments primarily in interest-bearing overnight deposits with the FHLB of Des Moines and the FRB. At June 30, 2020, the Company did not have any federal funds sold.

The total investment portfolio decreased \$138.8 million, or 10%, to \$1.27 billion at June 30, 2020, compared to \$1.41 billion at September 30, 2019, as maturities, sales, and principal pay downs exceeded purchases. 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 June 30, 2020 were issued by a U.S. Government agency or instrumentality. Of the total MBS at June 30, 2020, \$338.3 million, at fair value, were classified as available for sale, and \$6.4 million, at cost, were classified as held to maturity. Of the total investment securities at June 30, 2020, \$825.6 million, at fair value, were classified as available for sale and \$98.2 million, at cost, were classified as held to maturity. During the nine-months ended June 30, 2020, the Company purchased \$60.0 million of investment securities.

Loans held for sale at June 30, 2020 totaled \$79.9 million, decreasing from \$148.8 million at September 30, 2019. This decrease was primarily driven by the sale of held for sale loans resulting in proceeds of \$168.8 million during the fiscal 2020 first quarter, which was primarily comprised of \$111.7 million of consumer credit product loans sold.

The Company's portfolio of gross loans and leases decreased by \$154.7 million, or 4%, to \$3.50 billion at June 30, 2020, from \$3.65 billion at September 30, 2019. The decrease was primarily driven by the sale of community banking loans, partially offset by an increase in national lending loans and leases. See Note 3 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

National Lending loans and leases increased \$247.7 million, or 10% to \$2.70 billion at June 30, 2020 compared to September 30, 2019. Within the National Lending portfolios, commercial finance loans and leases increased \$242.7 million, tax services loans increased \$16.9 million, and warehouse finance portfolio increased \$14.7 million, while the consumer finance portfolio decreased \$26.6 million at June 30, 2020 compared to September 30, 2019. The increase in commercial finance loan balances was largely driven by \$215.5 million in PPP loans as of June 30, 2020. The seasonality of the Company's tax services business led to the increase in tax services loans at June 30, 2020 compared to September 30, 2019.

Community banking loans decreased \$402.4 million, or 33%, at June 30, 2020 compared to September 30, 2019, primarily due to the aforementioned sale of the Community Bank division in the second quarter of fiscal 2020. See Note 4 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q. The remainder of the decrease is attributable to the classification of \$48.1 million in loan balances as held for sale along with continued principal payments and payoffs.

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 \$0.9 million, or 3%, to \$31.8 million at June 30, 2020, from \$30.9 million at September 30, 2019. The increase in stock was driven by the addition of stock in the Federal Reserve Bank as part of the conversion of the Bank from a federal thrift charter to a national bank charter. Partially offsetting that increase was a decrease in FHLB stock, which directly correlates with lower overnight borrowings balances from the FHLB at June 30, 2020 compared to September 30, 2019.

Total end-of-period deposits increased \$3.25 billion, or 75%, at June 30, 2020 to \$7.59 billion as compared to September 30, 2019, primarily driven by an increase in noninterest bearing deposits of \$4.18 billion, of which \$2.68 billion was attributable to balances on the EIP cards. Lower levels of consumer spending and various stimulus payments loaded on partner cards also contributed to the overall increase in total deposits. Partially offsetting those increases were decreases of \$813.5 million in wholesale deposits, \$84.3 million in certificates of deposit, and \$36.1 million in money market deposits. The decrease in wholesale deposits was primarily due to a shift in the Company's deposit balances from wholesale deposits to noninterest bearing deposits stemming from the balances on the EIP cards. The decrease in certificate of deposits and money market deposits was related to the sale of \$290.5 million of total deposits included in the sale of the Community Bank division. See Note 4 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

The average balance of total deposits and interest-bearing liabilities was \$6.09 billion for the nine-months ended June 30, 2020, compared to \$5.37 billion for the same period of the prior fiscal year. The average balance of noninterest-bearing deposits for the nine-months ended June 30, 2020 increased by \$1.28 billion, or 47%, to \$3.99 billion compared to the same period in the prior year. These increases were primarily attributable to the deposit balances on the EIP cards.

The Company's total borrowings decreased \$652.1 million, or 76%, from \$861.9 million at September 30, 2019 to \$209.8 million at June 30, 2020, primarily due to the increase in total deposits. The Company's short-term borrowings fluctuate on a daily basis due to the nature of a portion of its noninterest-bearing deposit base, primarily related to payroll processing timing with a higher volume of short-term borrowings on Monday and Tuesday, which are typically paid down throughout the week. This predictable fluctuation may be augmented near a month-end by a prefunding of certain programs. The Company also has an available no-fee line of credit with JP Morgan of \$25.0 million with no funds advanced at June 30, 2020.

At June 30, 2020, the Company's stockholders' equity totaled \$829.9 million, an decrease of \$14.0 million, from \$844.0 million at September 30, 2019. 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. At June 30, 2020, the Bank continued to exceed all regulatory requirements for classification as a well-capitalized institution. 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 divisions that are included within noninterest-bearing deposits on the Company's consolidated statement of financial condition. Negative balances can relate to any of the following payments functions:

- Prefundings: The Company deploys funds to consumer 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 prepaid cards in an amount less than the face value as a form of revenue sharing with partners. These discounts are netted at a pooled partner level using ASC 210-20.
- 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-classed 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 at June 30, 2020 and September 30, 2019:

| (Dollars in Thousands) | June 30, 2020 | September 30, 2019 |
|-----------------------------------|---------------------|---------------------|
| Noninterest-bearing deposits | \$ 6,952,615 | \$ 2,827,808 |
| Prefunding | (351,454) | (379,035) |
| Discount funding | (51,580) | (79,694) |
| DDA overdrafts | (11,772) | (11,069) |
| Noninterest-bearing checking, net | <u>\$ 6,537,809</u> | <u>\$ 2,358,010</u> |

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 loan and lease losses at June 30, 2020 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 Loan and Lease 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) | June 30, 2020 | September 30, 2019 |
|---|---------------|--------------------|
| Nonperforming loans and leases | | |
| Nonaccruing loans and leases: | | |
| Term lending | \$ 16,524 | \$ 12,146 |
| Factoring | 733 | 1,669 |
| Lease financing | 3,518 | 308 |
| SBA/USDA | 1,510 | 255 |
| Commercial finance | 22,285 | 14,378 |
| Total National Lending | 22,285 | 14,378 |
| Commercial real estate and operating | 580 | — |
| Consumer one-to-four family real estate and other | 121 | 44 |
| Agricultural real estate and operating | 1,769 | — |
| Total Community Banking | 2,470 | 44 |
| Total | 24,755 | 14,422 |
| Accruing loans and leases delinquent 90 days or more: | | |
| Held for sale loans | — | 964 |
| Term lending | 2,578 | 2,241 |
| Lease financing | 1,907 | 1,530 |
| Insurance premium finance | 3,723 | 3,807 |
| SBA/USDA | 427 | — |
| Commercial finance | 8,635 | 7,578 |
| Consumer credit products | 337 | 239 |
| Other consumer finance | 572 | 1,078 |
| Consumer finance | 909 | 1,317 |
| Tax services | — | 2,240 |
| Total National Lending | 9,544 | 11,135 |
| Commercial real estate and operating | 258 | — |
| Agricultural real estate and operating | 4,737 | — |
| Total Community Banking | 4,995 | — |
| Total | 14,539 | 11,135 |
| Total nonperforming loans and leases | 39,294 | 26,521 |
| Other assets | | |
| Nonperforming operating leases | 9,983 | 457 |
| Foreclosed and repossessed assets: | | |
| Commercial finance | 6,784 | 1,372 |
| Agricultural real estate and operating | — | 28,122 |
| Total | 6,784 | 29,494 |
| Total other assets | 16,767 | 29,951 |
| Total nonperforming assets | \$ 56,061 | \$ 56,472 |
| Total as a percentage of total assets | 0.64 % | 0.91 % |

Through June 30, 2020, the Company has granted deferral payments on a total of \$352.1 million of loan, lease and rental equipment balances as a result of interagency guidance issued on March 22, 2020 encouraging companies to work with customers impacted by COVID-19. As of June 30, 2020, \$292.2 million of those balances were still in their deferment period.

At June 30, 2020, nonperforming loans and leases totaled \$39.3 million, representing 1.10% of total loans and leases, compared to \$26.5 million, or 0.70% of total loans and leases at September 30, 2019.

During the fiscal 2020 first quarter, the Company disposed of assets related to a previously disclosed Community Bank agricultural relationship that were held in other real estate owned ("OREO"), which represented 46 basis points of nonperforming assets as of September 30, 2019.

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 June 30, 2020, the Company had classified \$52.5 million of its assets as substandard, \$4.1 million as doubtful and none as loss. At September 30, 2019, the Company classified \$40.6 million of its assets as substandard, \$0.5 million as doubtful and none as loss.

Allowance for Loan and Lease Losses. The allowance for loan and lease losses is established through a provision for loan and lease losses based on management's evaluation of the risk inherent in its loan and lease portfolio and changes in the nature and volume of its loan and lease activity, including those loans and leases that are being specifically monitored by management. Such evaluation, which includes a review of loans and leases for which full collectability may not be reasonably assured, includes consideration of, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan and lease loss experience and other factors that warrant recognition in providing for an appropriate loan and lease loss allowance. Each loan and lease segment is evaluated using both historical loss factors as well as other qualitative factors, in order to determine the amount of risk the Company believes exists within that segment. The Bank's average loss rates over the past three years were low relative to industry averages for such years. The Bank does not believe it is likely that these low loss conditions will continue indefinitely.

At June 30, 2020, the Company had established an allowance for loan and lease losses totaling \$65.7 million, compared to \$29.1 million at September 30, 2019. The increase in the Company's allowance for loan and lease losses was driven primarily by increases in the allowance of \$14.8 million in commercial finance, \$12.3 million in the community banking portfolio, and \$11.4 million in tax service loans, partially offset by a decrease of \$1.9 million in consumer finance.

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 | | | | |
|-------------------------------|------------------------|----------------|-------------------|--------------------|---------------|
| | June 30, 2020 | March 31, 2020 | December 31, 2019 | September 30, 2019 | June 30, 2019 |
| Commercial finance | 1.36 % | 1.28 % | 0.80 % | 0.76 % | 0.67 % |
| Consumer finance | 1.75 % | 1.74 % | 2.22 % | 2.30 % | 2.22 % |
| Tax services | 59.67 % | 22.22 % | 1.62 % | — % | 63.19 % |
| Warehouse finance | 0.10 % | 0.10 % | 0.10 % | 0.10 % | 0.10 % |
| National Lending | 1.68 % | 1.92 % | 0.90 % | 0.86 % | 1.44 % |
| Community Banking | 2.55 % | 1.49 % | 0.68 % | 0.68 % | 0.70 % |
| Total loans and leases | 1.88 % | 1.81 % | 0.84 % | 0.80 % | 1.20 % |

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the appropriateness of its allowance for loan and lease losses. The Company continued to assess each of its loan and lease portfolios during the fiscal third quarter and increased its allowance for loan and lease losses as a percentage of total loans and leases in the community bank and commercial finance portfolios primarily as a result of the ongoing COVID-19 pandemic. Tax services coverage rates were driven only by typical seasonal activity and are not expected to be materially impacted by COVID-19 as the tax lending season is now complete. The Company expects to continue to diligently monitor the allowance for loan and lease losses 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 allowance for loan and lease losses at June 30, 2020 reflected an appropriate allowance against probable incurred losses from the lending portfolio. Although the Company maintains its allowance for loan and lease losses 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 allowance for loan and lease losses 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 allowance for loan and lease losses, 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, 2019. There were no significant changes to these critical accounting policies and estimates during the first nine months of fiscal year 2020.

RESULTS OF OPERATIONS

General. The Company recorded net income of \$18.2 million, or \$0.53 per diluted share, for the three months ended June 30, 2020, compared to net income of \$29.3 million, or \$0.75 per diluted share, for the three months ended June 30, 2019. Total revenue for the fiscal 2020 third quarter was \$103.2 million, compared to \$110.8 million for the same quarter in fiscal 2019, a decrease of 7%. The decrease in net income was primarily due to an increase in provision expense along with a decrease in interest income.

The Company recorded net income of \$91.6 million, or \$2.54 per diluted share, for the nine months ended June 30, 2020, compared to \$76.8 million, or \$1.95 per diluted share, for the same period in fiscal year 2019. Total revenue for the nine months ended June 30, 2020 was \$393.6 million, compared to \$385.2 million for the same period of the prior year, an increase of \$8.4 million, or 2%. The increase in net income was primarily due to an increase in noninterest income and a decrease in noninterest expense.

Net interest income for the fiscal 2020 third quarter decreased by 7%, to \$62.1 million from \$67.0 million for the same quarter in fiscal 2019. The decrease was driven primarily by lower overall balances and yields realized on the loan and lease portfolios along with a decrease in investment securities balances, partially offset by a reduction in total interest expense. The quarterly average outstanding balance of loans and leases as a percentage of interest-earning assets for the three months ended June 30, 2020 decreased to 48%, from 68% for the three months ended June 30, 2019, while the quarterly average balance of total investments as a percentage of interest-earning assets decreased to 17% from 31% over that same period. These decreases were primarily due to the \$2.31 billion increase in quarterly average interest-earning cash balances related to the EIP program.

For the nine months ended June 30, 2020, net interest income was \$194.5 million compared to \$198.6 million for the same period in the prior year.

Net interest margin was 3.28% in the fiscal 2020 third quarter, a decrease of 179 basis points from 5.07% in the fiscal 2019 third quarter. NIM,TE was 3.31% in the fiscal 2020 third quarter, a decrease of 184 basis points from 5.15% in the fiscal 2019 third quarter. The decreases in NIM and NIM, TE in the fiscal 2020 third quarter, compared to the same period of the prior year, were primarily driven by excess low-yielding cash held at the Federal Reserve stemming from the short term influx of EIP deposits, along with a lower interest rate environment. The increase of lower yielding cash balances resulted in a drag to the overall yield on total interest-earning assets during the current period. The net impact to NIM was approximately 140 basis points. The net effect of purchase accounting accretion contributed two basis points to NIM for the fiscal 2020 third quarter as compared to 25 basis points for the same period of the prior year.

For the nine months ended June 30, 2020, NIM was 4.21%, a decrease of 69 basis points from 4.90% during the comparable prior year period. NIM, TE for the nine months ended June 30, 2020 was 4.25%, a decrease of 77 basis points for the same period of the prior year.

The overall reported tax equivalent yield ("TEY") on average earning assets decreased by 267 basis points to 3.59% when comparing the fiscal 2020 third quarter to the same period of the prior fiscal year. The fiscal 2020 third quarter TEY on the securities portfolio decreased by 87 basis points to 2.22% compared to the same period of the prior year TEY of 3.09%. The decrease TEY on the securities portfolio was primarily due to a lower interest rate environment during the current period compared to the prior year period while the decrease on the TEY on average earning assets most primarily driven by excess low-yielding cash held at the Federal Reserve.

The Company's average interest-earning assets for the fiscal 2020 third quarter increased by \$2.31 billion to \$7.61 billion, from the comparable quarter in 2019. The increase was primarily attributable a significant increase in interest-earning cash driven by the effects of the EIP program. Total investment securities continued to decrease through sales of securities and cash flow from the Company's amortizing securities portfolio. Quarterly average loans and leases increased \$23.8 million, of which \$343.5 million was related to an increase in National Lending loans, partially offset by a \$319.7 million decrease in Community Banking loans.

The Company's average balance of total deposits and interest-bearing liabilities was \$7.49 billion for the three months ended June 30, 2020, compared to \$5.14 billion for the same period in the prior year, representing an increase of 46%. This increase was primarily driven by increases in average noninterest-bearing deposits of \$3.35 billion and average interest-bearing checking of \$88.4 million. The increase in average noninterest-bearing deposits was largely driven by \$2.32 billion in funds on EIP cards. Partially offsetting those increases were decreases in average wholesale deposits of \$704.2 million, average balances of total borrowings of \$262.6 million, average time deposits of \$102.8 million, and average money market deposits of \$18.7 million.

Overall, the Company's cost of funds for all deposits and borrowings averaged 0.28% during the fiscal 2020 third quarter, compared to 1.14% for the fiscal 2019 third quarter. This decrease was primarily due to a decrease in overnight borrowings rates as well as an increase in the average balance of the Company's noninterest-bearing deposits. The Company's overall cost of deposits was 0.17% in the fiscal 2020 third quarter, compared to 0.90% in the same quarter of 2019.

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.

| (Dollars in Thousands) | Three Months Ended June 30, | | | | | |
|---|-----------------------------|------------------------|-----------------------------|-----------------------------|------------------------|-----------------------------|
| | 2020 | | | 2019 | | |
| | 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 | \$ 2,692,270 | \$ 783 | 0.12 % | \$ 80,100 | \$ 521 | 2.61 % |
| Mortgage-backed securities | 342,174 | 2,269 | 2.67 % | 421,725 | 3,063 | 2.91 % |
| Tax exempt investment securities | 417,042 | 1,658 | 2.02 % | 690,732 | 4,058 | 2.98 % |
| Asset-backed securities | 336,562 | 1,770 | 2.11 % | 307,581 | 2,701 | 3.52 % |
| Other investment securities | 197,643 | 1,014 | 2.06 % | 199,681 | 1,557 | 3.13 % |
| Total investments | 1,293,420 | 6,711 | 2.22 % | 1,619,719 | 11,379 | 3.09 % |
| Total commercial finance | 2,160,175 | 40,375 | 7.52 % | 1,775,905 | 44,332 | 10.01 % |
| Total consumer finance | 247,824 | 4,635 | 7.52 % | 364,633 | 8,178 | 9.00 % |
| Total tax services | 39,845 | — | — % | 45,142 | — | — % |
| Total warehouse finance | 304,839 | 4,582 | 6.05 % | 223,546 | 3,491 | 6.26 % |
| National Lending loans and leases | 2,752,683 | 49,592 | 7.25 % | 2,409,226 | 56,001 | 9.32 % |
| Community Banking loans | 870,245 | 10,319 | 4.77 % | 1,189,912 | 13,731 | 4.63 % |
| Total loans and leases | 3,622,928 | 59,911 | 6.65 % | 3,599,138 | 69,732 | 7.77 % |
| Total interest-earning assets | 7,608,618 | \$ 67,406 | 3.59 % | 5,298,957 | \$ 81,632 | 6.26 % |
| Noninterest-earning assets | 830,589 | | | 820,474 | | |
| Total assets | \$ 8,439,206 | | | \$ 6,119,431 | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking ⁽²⁾ | \$ 226,382 | \$ — | — % | \$ 137,950 | \$ 85 | 0.25 % |
| Savings | 55,572 | 1 | 0.01 % | 54,247 | 9 | 0.07 % |
| Money markets | 40,091 | 33 | 0.33 % | 58,782 | 107 | 0.73 % |
| Time deposits | 25,392 | 113 | 1.78 % | 128,165 | 633 | 1.98 % |
| Wholesale deposits | 817,414 | 2,983 | 1.47 % | 1,521,594 | 9,561 | 2.52 % |
| Total interest-bearing deposits | 1,164,852 | 3,130 | 1.08 % | 1,900,738 | 10,395 | 2.19 % |
| Overnight fed funds purchased | 59,055 | 48 | 0.33 % | 363,857 | 2,368 | 2.61 % |
| FHLB advances | 110,000 | 670 | 2.45 % | 54,341 | 324 | 2.39 % |
| Subordinated debentures | 73,738 | 1,153 | 6.29 % | 73,583 | 1,163 | 6.34 % |
| Other borrowings | 27,032 | 268 | 3.98 % | 40,653 | 414 | 4.08 % |
| Total borrowings | 269,825 | 2,139 | 3.19 % | 532,434 | 4,269 | 3.22 % |
| Total interest-bearing liabilities | 1,434,677 | 5,269 | 1.48 % | 2,443,172 | 14,664 | 2.42 % |
| Noninterest-bearing deposits | 6,057,314 | — | — % | 2,710,288 | — | — % |
| Total deposits and interest-bearing liabilities | 7,491,991 | \$ 5,269 | 0.28 % | 5,143,460 | \$ 14,664 | 1.14 % |
| Other noninterest-bearing liabilities | 122,940 | | | 149,207 | | |
| Total liabilities | 7,614,931 | | | 5,292,667 | | |
| Shareholders' equity | 824,276 | | | 826,764 | | |
| Total liabilities and shareholders' equity | \$ 8,439,206 | | | \$ 6,119,431 | | |
| Net interest income and net interest rate spread including noninterest-bearing deposits | | \$ 62,137 | 3.30 % | | \$ 66,968 | 5.12 % |
| Net interest margin | | | 3.28 % | | | 5.07 % |
| Tax-equivalent effect | | | 0.02 % | | | 0.08 % |
| Net interest margin, tax-equivalent ⁽³⁾ | | | 3.31 % | | | 5.15 % |

⁽¹⁾ Tax rate used to arrive at the TEY for the three months ended June 30, 2020 and 2019 was 21%.

⁽²⁾ Of the total balance, \$226.1 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) | Nine Months Ended June 30, | | | | | |
|---|-----------------------------|------------------------|-----------------------------|-----------------------------|------------------------|-----------------------------|
| | 2020 | | | 2019 | | |
| | 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 | \$ 992,935 | \$ 1,934 | 0.26 % | \$ 148,751 | \$ 2,989 | 2.69 % |
| Mortgage-backed securities | 358,942 | 7,151 | 2.66 % | 392,395 | 8,622 | 2.94 % |
| Tax exempt investment securities | 454,202 | 6,130 | 2.28 % | 952,501 | 17,999 | 3.20 % |
| Asset-backed securities | 315,000 | 6,395 | 2.71 % | 297,316 | 8,090 | 3.64 % |
| Other investment securities | 195,851 | 3,718 | 2.54 % | 150,888 | 3,301 | 2.93 % |
| Total investments | 1,323,994 | 23,394 | 2.52 % | 1,793,100 | 38,012 | 3.19 % |
| Total commercial finance | 2,053,414 | 126,799 | 8.25 % | 1,662,322 | 125,566 | 10.10 % |
| Total consumer finance | 260,950 | 15,811 | 8.09 % | 327,700 | 21,697 | 8.85 % |
| Total tax services | 192,971 | 6,384 | 4.42 % | 140,515 | 8,206 | 7.81 % |
| Total warehouse finance | 294,852 | 13,542 | 6.13 % | 168,081 | 7,912 | 6.29 % |
| National Lending loans and leases | 2,802,186 | 162,536 | 7.75 % | 2,298,618 | 163,382 | 9.50 % |
| Community Banking loans | 1,048,689 | 36,571 | 4.66 % | 1,175,667 | 40,519 | 4.61 % |
| Total loans and leases | 3,850,875 | 199,106 | 6.91 % | 3,474,285 | 203,901 | 7.85 % |
| Total interest-earning assets | 6,167,804 | \$ 224,434 | 4.90 % | 5,416,137 | \$ 244,902 | 6.16 % |
| Noninterest-earning assets | 886,320 | | | 877,130 | | |
| Total assets | \$ 7,054,124 | | | \$ 6,293,267 | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking ⁽²⁾ | \$ 222,772 | \$ 480 | 0.29 % | \$ 129,656 | \$ 220 | 0.23 % |
| Savings | 50,308 | 16 | 0.04 % | 54,643 | 28 | 0.07 % |
| Money markets | 63,077 | 390 | 0.83 % | 56,987 | 263 | 0.62 % |
| Time deposits | 75,231 | 1,134 | 2.01 % | 160,740 | 2,229 | 1.85 % |
| Wholesale deposits | 1,224,090 | 18,690 | 2.04 % | 1,832,237 | 32,990 | 2.41 % |
| Total interest-bearing deposits | 1,635,478 | 20,712 | 1.69 % | 2,234,264 | 35,731 | 2.14 % |
| Overnight fed funds purchased | 245,030 | 2,805 | 1.53 % | 287,985 | 5,485 | 2.55 % |
| FHLB advances | 110,000 | 2,019 | 2.45 % | 18,114 | 324 | 2.39 % |
| Subordinated debentures | 73,698 | 3,471 | 6.29 % | 73,543 | 3,486 | 6.34 % |
| Other borrowings | 29,792 | 903 | 4.05 % | 43,690 | 1,286 | 3.93 % |
| Total borrowings | 458,520 | 9,197 | 2.68 % | 423,332 | 10,581 | 3.34 % |
| Total interest-bearing liabilities | 2,093,998 | 29,909 | 1.91 % | 2,657,595 | 46,312 | 2.33 % |
| Noninterest-bearing deposits | 3,991,561 | — | — % | 2,715,870 | — | — % |
| Total deposits and interest-bearing liabilities | 6,085,559 | \$ 29,909 | 0.66 % | 5,373,465 | \$ 46,312 | 1.15 % |
| Other noninterest-bearing liabilities | 136,722 | | | 128,924 | | |
| Total liabilities | 6,222,281 | | | 5,502,389 | | |
| Shareholders' equity | 831,843 | | | 790,878 | | |
| Total liabilities and shareholders' equity | \$ 7,054,124 | | | \$ 6,293,267 | | |
| Net interest income and net interest rate spread including noninterest-bearing deposits | | \$ 194,525 | 4.24 % | | \$ 198,590 | 5.01 % |
| Net interest margin | | | 4.21 % | | | 4.90 % |
| Tax-equivalent effect | | | 0.04 % | | | 0.12 % |
| Net interest margin, tax-equivalent ⁽³⁾ | | | 4.25 % | | | 5.02 % |

⁽¹⁾ Tax rate used to arrive at the TEY for the nine months ended June 30, 2020 and 2019 was 21%.

⁽²⁾ Of the total balance, \$226.1 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 Loan and Lease Losses. The Company recorded a \$15.1 million and a \$55.8 million provision for loan and lease losses for the three and nine months ended June 30, 2020, as compared to a \$9.1 million and a \$51.5 million provision for loan and lease losses for the same period of the prior year. The increase in provision for the quarter ended June 30, 2020 compared to the same period of the prior year was primarily driven by the community banking and commercial finance portfolios, partially offset by decreases in the consumer finance and tax services portfolios. Provision increases in the community banking and commercial finance portfolios was primarily attributable to the increased stress that the hospitality loans and the small ticket equipment finance relationships have experienced stemming from the ongoing economic uncertainty related to the COVID-19 pandemic. Loans and leases that received short-term payment deferrals were also analyzed and additional provision was applied as appropriate.

Also see Note 6 to the Condensed Consolidated Financial Statements included in this quarterly report.

Noninterest Income. Noninterest income for the fiscal 2020 third quarter decreased to \$41.0 million from \$43.8 million for the same period in the prior fiscal year. This year-over-year decrease was primarily due to lower tax product fee income and a reduction in gains on loan sales, partially offset by an increase in rental income.

Noninterest income for the nine months ended June 30, 2020 of \$199.0 million, increased \$12.5 million, or 7%, from \$186.6 million in the same period in the prior fiscal year. This increase was primarily due to a \$19.3 million gain on divestiture of the Community Bank division during the fiscal 2020 second quarter. See Note 4 to the Condensed Consolidated Financial Statements included in this quarterly report.

Noninterest Expense. Noninterest expense decreased 2% to \$71.2 million for the fiscal 2020 third quarter, from \$72.5 million for the same quarter of fiscal 2019. The decrease in noninterest expense when comparing the fiscal 2020 third quarter to the same period of the prior year was primarily driven by lower compensation and benefits, intangible amortization, total tax product expense, and occupancy and equipment expenses, partially offset by higher card processing expenses and operating lease equipment depreciation.

Noninterest expense for the nine months ended June 30, 2020 decreased by \$18.2 million, or 7%, to \$238.8 million compared to the same period in the prior fiscal year.

Income Tax. The Company recorded an income tax benefit of \$2.4 million, representing an effective tax rate of (14.4%), for the fiscal 2020 third quarter, compared to an income tax benefit of \$1.2 million, representing an effective tax rate of (4.0)%, for the fiscal 2019 third quarter. The recorded income tax expense during the current quarter was primarily due to ratably recognized investment tax credits and lower forecast earnings due to COVID-19.

The Company originated \$1.3 million in solar leases during the fiscal 2020 third quarter, compared to \$49.1 million during the fiscal 2019 third quarter. 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. Insignificant income tax impacts are expected related to COVID-19.

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 June 30, 2020, the Company had commitments to originate and purchase loans and unused lines of credit totaling \$1.12 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 June 30, 2020, both the Bank and the Company exceeded federal regulatory minimum capital requirements to be classified as well-capitalized under the prompt corrective action requirements. The Company and the Bank took 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 June 30, 2020 | 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 | 5.91 % | 6.89 % | 4.00 % | 5.00 % |
| Common equity Tier 1 capital ratio | 11.51 | 13.82 | 4.50 | 6.50 |
| Tier 1 capital ratio | 11.90 | 13.86 | 6.00 | 8.00 |
| Total capital ratio | 14.99 | 15.12 | 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⁾ June 30, 2020 |
|---|---|
| Total stockholders' equity | \$ 829,909 |
| Adjustments: | |
| LESS: Goodwill, net of associated deferred tax liabilities | 302,814 |
| LESS: Certain other intangible assets | 42,865 |
| LESS: Net deferred tax assets from operating loss and tax credit carry-forwards | 10,360 |
| LESS: Net unrealized gains on available-for-sale securities | 8,382 |
| LESS: Noncontrolling interest | 3,787 |
| Common Equity Tier 1 Capital ⁽¹⁾ | 461,701 |
| Long-term borrowings and other instruments qualifying as Tier 1 | 13,661 |
| Tier 1 minority interest not included in common equity tier 1 capital | 1,894 |
| Total Tier 1 Capital | 477,256 |
| Allowance for loan and lease losses | 50,338 |
| Subordinated debentures (net of issuance costs) | 73,765 |
| Total Capital | 601,359 |

⁽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) | June 30, 2020 |
|---------------------------------------|---------------|
| Total Stockholders' Equity | \$ 829,909 |
| LESS: Goodwill | 309,505 |
| LESS: Intangible assets | 43,974 |
| Tangible common equity | 476,430 |
| LESS: AOCI | 7,995 |
| Tangible common equity excluding AOCI | 468,435 |

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, 2019 for a summary of our contractual obligations as of September 30, 2019. There were no material changes outside the ordinary course of our business in contractual obligations from September 30, 2019 through June 30, 2020.

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

For discussion of the Company's off-balance sheet financing arrangements at June 30, 2020, see Note 15 to our 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.

REGULATION AND SUPERVISION

The following information is intended to update, and should be read in conjunction with, the information contained under the caption "Regulation and Supervision" in the Company's Annual Report on Form 10-K.

Updates Related to COVID-19

The CARES Act

In response to the COVID-19 pandemic, the CARES Act was signed into law by President Trump on March 27, 2020. The CARES Act provides for approximately \$2.2 trillion in emergency economic relief measures. Many of the CARES Act's programs are dependent upon the direct involvement of U.S. financial institutions, such as the Company and the Bank, and have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Federal Reserve and other federal bank regulatory authorities, including those with direct supervisory jurisdiction over the Company and the Bank. Furthermore, as the COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. In addition, it is possible that Congress will enact supplementary COVID-19 response legislation, including new bills comparable in scope to the CARES Act, prior to the end of 2020.

The following description of certain provisions of the CARES Act and other regulations and supervisory guidance related to the COVID-19 pandemic that are applicable to the Company and the Bank is qualified in its entirety by reference to the full text of CARES Act and the statutes, regulations, and policies described herein. Future amendments to the provisions of the CARES Act or changes to any of the statutes, regulations, or regulatory policies applicable to the Company and its subsidiaries could have a material effect on the Company. Such legislation and related regulations and supervisory guidance will be implemented over time and will remain subject to review by Congress and the implementing regulations issued by federal regulatory authorities. The Company continues to assess the impact of the CARES Act and other statutes, regulations and supervisory guidance related to the COVID-19 pandemic.

Paycheck Protection Program. The CARES Act amended the SBA's loan program, in which the Bank participates, to create a guaranteed, unsecured loan program, the PPP, to fund operational costs of eligible businesses, organizations and self-employed persons during COVID-19. On June 5, 2020, the President signed the Paycheck Protection Program Flexibility Act ("PPPFA") into law, which among other things, gave borrowers additional time and flexibility to use PPP loan proceeds. Shortly thereafter, and due to the evolving impact of the COVID-19 pandemic, the President signed additional legislation authorizing the SBA to resume accepting PPP applications on July 6, 2020 and extending the PPP application deadline to August 8, 2020. It is anticipated that additional revisions to the SBA's interim final rules on forgiveness and loan review procedures will be forthcoming to address these and related changes. As a participating lender in the PPP, the Bank continues to monitor legislative, regulatory, and supervisory developments related thereto.

Troubled Debt Restructuring and Loan Modifications for Affected Borrowers. The CARES Act permits banks to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. Federal bank regulatory authorities also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 and to assure banks that they will not be criticized by examiners for doing so. The Company is applying this guidance to qualifying loan modifications. See Note 19. Subsequent Events for further information about the COVID-19-related loan modifications completed by the company.

Temporary Community Bank Leverage Ratio Relief. Pursuant to the CARES Act, federal bank regulatory authorities adopted an interim rule, effective until the earlier of the termination of the coronavirus emergency declaration and December 31, 2020, to (i) reduce the minimum Community Bank Leverage Ratio from 9% to 8% percent and (ii) give community banks two-quarter grace period to satisfy such ratio if such ratio falls out of compliance by no more than 1%.

Federal Reserve Programs and Other Recent Initiatives

Main Street Lending Program. The CARES Act encouraged the Federal Reserve, in coordination with the Secretary of the Treasury, to establish or implement various programs to help midsize businesses, nonprofits, and municipalities. On April 9, 2020, the Federal Reserve proposed the creation of the Main Street Lending Program (“MSLP”) to implement certain of these recommendations. On June 15, 2020, the Federal Reserve Bank of Boston opened the MSLP for lender registration. The MSLP supports lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic. The MSLP operates through three facilities: the Main Street New Loan Facility, the Main Street Priority Loan Facility, and the Main Street Expanded Loan Facility. The Federal Reserve is currently working to refine the MSLP’s operational infrastructure and facilities and is expected to release further rules and operational guidance. The Bank continues to monitor developments thereto.

Temporary Regulatory Capital Relief related to Impact of CECL. Concurrent with enactment of the CARES Act, federal bank regulatory authorities issued an interim final rule that delays the estimated impact on regulatory capital resulting from the adoption of CECL. The interim final rule provides banking organizations that implement CECL before the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. The Company does expect to elect this option.

Updates Related to the Conversions of the Company and the Bank

As a result of the April 1, 2020 conversions, the Company is a bank holding company that has elected to be a financial holding company, which is supervised and examined by the FRB and the Bank is a national bank supervised and examined by the OCC. Except as otherwise noted, the Company’s and the Bank’s post-conversion regulatory obligations under the National Bank Act (“NBA”) and under the BHC Act and Regulation Y, respectively, are substantially consistent with the pre-conversion regulatory obligations of the Bank and the Company under HOLA and Regulation LL.

Regulation and Supervision. As a BHC that has elected to become a FHC, the Company is supervised by the Federal Reserve and may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system (as solely determined by the Federal Reserve). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting, and making merchant banking investments.

As a result of the conversion of the Bank to a national bank charter, the Bank derives its lending and investment powers from the National Bank Act (“NBA”) and the OCC’s implementing regulations promulgated thereunder. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities and certain other assets. The Bank may also invest in operating subsidiaries, bank service companies (but not service corporations generally), financial subsidiaries, and may make non-controlling investments in other entities, in each case subject to the statutory provisions of the NBA and the OCC’s regulatory requirements and limitations.

In general, the Bank’s legal lending limit totals 15 percent of its capital and surplus plus an additional 10 percent of capital and surplus if the amount that exceeds the 15 percent general limit is fully secured by readily marketable collateral (together, referred to as the “combined general limit”). At June 30, 2020, the Bank was in compliance with the combined general limit.

No Qualified Thrift Lender Test. As a national bank, the Bank is no longer required to be a qualified thrift lender (a “QTL”) or satisfy any element of the QTL test applicable to federal savings associations.

Limitations on Dividends and Other Capital Distributions. The NBA and related federal regulations govern the permissibility of dividends and capital distributions by a national bank. As a national bank, the Bank's board of directors may declare and pay dividends of as much of the undivided profits as the directors judge to be expedient, subject to the certain key restrictions, including:

- unless approved by the OCC, the Bank may not declare a dividend if the total amount of all dividends (common and preferred), including the proposed dividend, declared in any current year exceeds the total of the Bank's net income of the current year to date, combined with the retained net income of current year minus one and current year minus two, less the sum of transfers required by the OCC (if any) and transfers required to be made to a fund for the retirement of any preferred stock (if any);
- the Bank may not declare a dividend if the Bank has sustained losses at any time that equal or exceed its undivided profits (i.e., retained earnings); and
- the Bank may not declare or pay any dividend if, after making the dividend, the Bank would be "undercapitalized" as defined in the OCC's Prompt Corrective Action regulations.

Acquisitions. Federal law prohibits a BHC directly or indirectly, from: (a) acquiring control (as defined under the BHC Act) of another depository institution (or a holding company parent) without prior Federal Reserve approval; or (b) through merger, consolidation or purchase of assets, acquiring another depository institution or a holding company thereof, or acquiring all or substantially all of the assets of such institution (or a holding company), without prior Federal Reserve approval. In evaluating applications by bank holding companies to acquire insured depository institutions, the Federal Reserve must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the DIF, the convenience and needs of the community and competitive factors.

On April 1, 2020, the Federal Reserve's final rule for determining whether a company has control over a bank or other company for purposes of the BHC Act and the control presumptions promulgated under Regulation Y (the "Control Rule") became effective. The Control Rule provides specific guidance in place of the Federal Reserve's prior facts-and-circumstances approach to control evaluations under the BHC Act and Regulation Y.

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 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 divisions 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 Bank, like other financial institutions, is subject to interest rate risk to the extent that its interest-bearing liabilities mature or reprice more rapidly than its interest-earning assets. 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 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 loan 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. We perform 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 -100, +100, +200, +300, and +400 basis point parallel shifts in market interest rates over the next one-year period. Due to the current low level of interest rates, only -100 basis point parallel shift is represented.

The Company was within Board policy limits for all interest rate scenarios. The following table shows the results of the scenarios at June 30, 2020:

| Net Sensitive Earnings at Risk | | | | | | | |
|----------------------------------|------------|---|---------|---------|---------|---------|---------|
| | | Change in Interest Income/Expense for a Given Change in Interest Rates | | | | | |
| | | Over / (Under) Base Case Parallel Shift | | | | | |
| (Dollars in Thousands) | Book Value | -100 | Base | 100 | 200 | 300 | 400 |
| Total interest-sensitive income | 7,897,080 | 238,898 | 246,992 | 295,264 | 344,100 | 393,644 | 442,948 |
| Total interest-sensitive expense | 1,174,871 | 6,173 | 7,494 | 13,727 | 19,985 | 26,286 | 32,631 |
| Net interest-sensitive income | 6,722,209 | 232,725 | 239,498 | 281,537 | 324,115 | 367,358 | 410,317 |
| Percentage change from base | — | -2.8 % | — % | 17.6 % | 35.3 % | 53.4 % | 71.3 % |
| Board policy limits | — | -8.0 % | — % | -8.0 % | -10.0 % | -15.0 % | -20.0 % |

The EAR analysis reported at June 30, 2020, shows that in all rising rate scenarios, more assets than liabilities would reprice over the modeled one-year period. Because of the static balance sheet assumption, excess interest-bearing cash and reduced wholesale funding at the end of the period result in more income sensitivity than would be typical, IRR is a snapshot in time. The Company's business and deposits are very predictably cyclical on a weekly, monthly and yearly basis. The Company's static IRR results could vary depending on which day of the week and timing in relation to certain payrolls, as well as time of the month in regard to early funding of certain programs, when this snapshot is taken. The Company's overnight federal funds purchased fluctuates on a predictable daily and monthly basis due to fluctuations in a portion of its noninterest-bearing deposit base, 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 -100, +100, +200, +300 and +400 basis point parallel shifts in market interest rates. Due to the current low level of interest rates, only -100 basis point parallel shift is represented.

The Company was within Board policy limits for rising rate scenarios and exceeded the limit for -100 due to rapid growth in noninterest-bearing deposits. The following table shows the results of the scenarios at June 30, 2020:

| Economic Value Sensitivity | | | | | | |
|-----------------------------|--|-----------------------------------|---------|---------|---------|---------|
| | | Standard (Parallel Shift) | | | | |
| | | Economic Value of Equity at Risk% | | | | |
| | | -100 | 100 | 200 | 300 | 400 |
| Percentage change from base | | -10.8 % | 10.4 % | 18.5 % | 25.0 % | 30.6 % |
| Board policy limits | | -10.0 % | -10.0 % | -20.0 % | -25.0 % | -35.0 % |

The EVE at risk reported at June 30, 2020 shows that as interest rates increase, the economic value of equity position will be asset sensitive due to growth in noninterest-bearing deposits.

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, at June 30, 2020, 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 June 30, 2020, the Company's disclosure controls and procedures were not effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

In the fiscal 2019 third quarter, the Company identified a material weakness in the control environment of the Crestmark division, which was acquired by the Company on August 1, 2018. The material weakness resulted from the aggregation of control deficiencies at the Crestmark division relating to Information Technology ("IT") system access, program change controls and review procedures related to new loan accounts and client record maintenance changes. Accordingly, management determined the aggregation of these deficiencies represents a material weakness in internal controls over financial reporting on the basis that they could result in a material misstatement potentially impacting the Company's financial statement accounts and disclosures that would not be prevented or detected on a timely basis. Also, the deficiencies could impact maintaining effective segregation of duties, as well as the effectiveness of dependent controls relating to the financial statements. In addition, these deficiencies could affect the controls and underlying data that support the effectiveness of system-generated reports.

REMEDATION FOR REPORTED MATERIAL WEAKNESS

The Company is in process of implementing a remediation plan to address the material weakness described above with respect to the internal controls environment of the Crestmark division and is committed to maintaining a strong internal controls environment. To address the material weakness, the Company re-evaluated IT governance and controls, updated procedures related to access management, trained IT personnel related to user access to IT systems, and is in process of rolling out an education plan for end users and management and automating change management applications. At June 30, 2020, management was continuing its remediation efforts. If the material weakness is not remediated, however, these deficiencies could result in material misstatements to the Company's Condensed Consolidated Financial Statements.

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 June 30, 2020 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 third 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, 2019. There were no material changes to those risk factors during the nine months ended June 30, 2020, except for the following:

Removal of Risk Factor

There are risks associated with the proposed transaction with Central Bank, including Central's receipt of required regulatory approvals and timing for completion of the transaction.

As a result of the transaction with Central Bank closing on February 29, 2020, the Company is no longer subject to this risk.

Additional Risk Factors

The ongoing COVID-19 pandemic and resulting adverse economic conditions have adversely impacted our business and results and could have a more material adverse impact on our business, financial condition and results of operations.

Our business is dependent on the willingness and ability of our customers to conduct banking and other financial transactions. The ongoing COVID-19 global and national health emergency has caused significant disruption in the United States and international economies and financial markets. The spread of COVID-19 in the United States has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in commercial activity and financial transactions, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Phased re-openings have begun and are in various stages in different jurisdictions.

Although the Bank continued operating during the shutdowns, the COVID-19 pandemic has caused disruptions to our business and could cause material disruptions in the future. Impacts to our business have included costs due to additional health and safety precautions implemented at our offices and the transition of a portion of our workforce to home locations, increases in customers' inability to make scheduled loan payments, increases in requests for forbearance and loan modifications, and an adverse effect on accounting estimates that we use to determine our provision and allowance for credit losses. A worsening or prolonged continuation of the current unfavorable economic conditions could further impact our provision and allowance for credit losses, and could impact the value of certain assets that we carry on our balance sheet such as goodwill.

While we have taken and are continuing to take precautions to protect the safety and well-being of our employees, customers and partners, including as local economies undergo phased re-openings, no assurance can be given that the steps being taken will be adequate or appropriate. The continued or renewed spread of COVID-19 could negatively impact the availability of key personnel necessary to conduct our business, the business and operations of our third-party service providers who perform critical services for our business, or the businesses of many of our customers and borrowers. In addition, as a result of the pandemic and the related increase in remote working, the risk of cyber-attacks, breaches or similar events, whether through our systems or those of third parties on which we rely, has increased.

Among the factors outside our control that are likely to affect the impact the COVID-19 pandemic will ultimately have on our business are:

- the pandemic's course and severity;
- the direct and indirect results of the pandemic, such as recessionary economic trends, including with respect to employment, wages and benefits, commercial activity, consumer spending and real estate market values;
- declines in collateral values;
- political, legal and regulatory actions and policies in response to the pandemic, including the effects on restrictions on commerce and banking, such as moratoria and other suspensions of collections, foreclosures, and related obligations;
- the timing, magnitude and effect of public spending, directly or through subsidies, its direct and indirect effects on commercial activity and incentives of employers and individuals to resume or increase employment, wages and benefits and commercial activity;
- the timing and availability of direct and indirect governmental support for various financial assets;
- potential longer-term effects of increased government spending on the interest rate environment and borrowing costs for non-governmental parties; and
- the ability of our employees and our third-party vendors to work effectively during the course of the pandemic; and
- any increase in cyber and payment fraud related to COVID-19, as cybercriminals attempt to profit from disruption, given increased online banking, e-commerce and other online activity.

The ongoing COVID-19 pandemic has also resulted in severe volatility in the financial markets and meaningfully lower stock prices for many companies, including our common stock. Depending on the extent and duration of the COVID-19 pandemic, the price of our common stock may continue to experience volatility and declines.

We are continuing to monitor the COVID-19 pandemic and related risks, although the rapid development and fluidity of the situation precludes any specific prediction as to its ultimate impact on us. However, if the pandemic continues to spread or otherwise result in a continuation or worsening of the current economic environment, our business, financial condition, results of operations could be materially adversely affected.

We are exposed to losses from customer accounts.

Fraudulent activity involving our products may lead to customer disputed transactions, for which we may be liable under banking regulations and payment network rules. Our fraud detection and risk control mechanisms may not prevent all fraudulent or illegal activity. To the extent we incur losses from disputed transactions, our business, results of operations and financial condition could be materially and adversely affected. Additionally, our cardholders can incur charges in excess of the funds available in their accounts, and we may become liable for these overdrafts.

While we decline authorization attempts for amounts that exceed the available balance in a cardholder's account, the application of card association rules, the timing of the settlement of transactions and the assessment of the card's monthly maintenance fee, among other things, can result in overdrawn accounts.

In addition, we face settlement risks from our distributors and banking partners, which may increase during an economic downturn. Depending on contract terms, we may prefund partner accounts. If a partner becomes insolvent, files for bankruptcy, commits fraud or otherwise fails to remit proceeds to our card issuing bank from the sales of our products and services, we are liable for any amounts owed to our customers. At June 30, 2020, we had assets subject to settlement risk of \$0.4 million. We are not insured against these risks. Significant settlement losses could have a material adverse effect on our business, results of operations and financial condition.

A failure in or breach of operational or security systems of our loan service provider, could disrupt our business, result in unintentional disclosure or misuse of confidential information, damage our reputation, increase our costs and cause losses.

We have an agreement with Central Bank to service our loans retained from MetaBank's sale of the Community Bank division. Loan servicing includes administrative tasks such as receiving payments, sending monthly statements, and managing escrow accounts. We rely heavily on the secure data processing, storage and transmission of confidential and other information on computer systems and networks.

We face the risk of operational disruption, failure, termination or capacity constraints from our loan service provider that facilitate our business activities, including exchanges and clearings. They could also be the source of an attack on, or breach of, our loan customers information. Any failures, interruptions or security breaches could damage our reputation, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

The conversion from a SLHC to a BHC and from a federal savings bank to a national bank charter imposes new capital and other regulatory requirements on us that could limit our ability to maintain or expand our business or subject us to regulatory action.

As a BHC and a FHC, we are subject to the comprehensive, consolidated supervision and regulation of the FRB, including risk-based and leverage capital requirements, investment practices, dividend policy and growth. We must maintain certain risk-based and leverage capital ratios as required by the FRB which can change depending upon general economic conditions and our particular condition, risk profile and plans. Compliance with the capital requirements, including leverage ratios, may limit operations that require the intensive use of capital and could adversely affect our ability to maintain or expand present business levels.

Our failure to meet applicable capital requirements could subject us to a variety of enforcement actions available to the federal regulatory authorities. These include limitations on our ability to pay dividends and/or repurchase shares, the issuance by the regulatory authority of a capital directive to increase capital, loss of FHC status and the termination of deposit insurance by the FDIC.

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 2,000,000 share repurchase program that was scheduled to expire on September 30, 2021. The share repurchase program was announced on March 26, 2019 and became effective on May 1, 2019. All remaining shares available for repurchase under this program were repurchased during the fiscal 2020 first quarter.

In addition, Meta's Board of Directors authorized a 7,500,000 share repurchase program that is scheduled to expire on December 31, 2022. The share repurchase program was announced on November 20, 2019 and became effective on November 21, 2019. The Company suspended its share repurchase activity in March 2020.

The table below sets forth information regarding repurchases of our common stock during the fiscal 2020 third quarter.

| Period | Total Number of Shares Repurchased ⁽¹⁾ | Average Price Paid per Share ⁽¹⁾⁽²⁾ | Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that may yet be Repurchased Under the Programs |
|---------------|---|--|--|---|
| April 1 to 30 | — | \$ — | — | 4,404,634 |
| May 1 to 31 | 829 | 17.20 | — | 4,404,634 |
| June 1 to 30 | — | — | — | 4,404,634 |
| Total | 829 | | — | |

⁽¹⁾ All shares in these columns reflect shares 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.INS | Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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: August 6, 2020

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

Date: August 6, 2020

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: August 6, 2020

/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: August 6, 2020

/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 June 30, 2020 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
August 6, 2020

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 June 30, 2020 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

August 6, 2020