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, 2023
OR

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

For the transition period from to

Commission File Number 001-38290

Sterling Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Michigan	**38-3163775**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

One Towne Square, Suite 1900
Southfield, Michigan 48076
(248) 355-2400
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SBT	Nasdaq Capital Market

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

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

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

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

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

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

As of July 31, 2023, 52,076,082 shares of the registrant's Common Stock were outstanding.

STERLING BANCORP, INC.
QUARTERLY REPORT ON FORM 10-Q
INDEX

Sterling Bancorp, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
(dollars in thousands)

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

	June 30, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 655,391	$ 379,798
Interest-bearing time deposits with other banks	934	934
Debt securities available for sale, at fair value (amortized cost $359,793 and $370,489)	334,508	343,558
Equity securities	4,640	4,642
Loans held for sale	—	7,725
Loans, net of allowance for credit losses of $36,153 and $45,464	1,449,709	1,613,385
Accrued interest receivable	7,489	7,829
Mortgage servicing rights, net	1,658	1,794
Leasehold improvements and equipment, net	5,850	6,301
Operating lease right-of-use assets	13,025	14,800
Federal Home Loan Bank stock, at cost	20,288	20,288
Company-owned life insurance	8,605	8,501
Deferred tax asset, net	18,538	23,704
Other assets	11,375	11,476
Total assets	$ 2,532,010	$ 2,444,735
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	$ 44,799	$ 53,041
Interest-bearing deposits	1,996,692	1,900,996
Total deposits	2,041,491	1,954,037
Federal Home Loan Bank borrowings	50,000	50,000
Subordinated notes, net	65,234	65,271
Operating lease liabilities	14,176	15,990
Accrued expenses and other liabilities	43,433	46,810
Total liabilities	2,214,334	2,132,108
Shareholders' equity		
Preferred stock, authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, no par value, authorized 500,000,000 shares; issued and outstanding 52,081,886 shares and 50,795,871 shares at June 30, 2023 and December 31, 2022, respectively	84,323	83,295
Additional paid-in capital	15,098	14,808
Retained earnings	236,587	234,049
Accumulated other comprehensive loss	(18,332)	(19,525)
Total shareholders' equity	317,676	312,627
Total liabilities and shareholders' equity	$ 2,532,010	$ 2,444,735

See accompanying notes to condensed consolidated financial statements.

Sterling Bancorp, Inc.
Condensed Consolidated Statements of Operations (Unaudited)
(dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Interest income				
Interest and fees on loans	$ 21,892	$ 20,746	$ 44,052	$ 44,614
Interest and dividends on investment securities and restricted stock	2,666	1,353	5,122	2,188
Interest on interest-bearing cash deposits	7,002	791	11,809	1,006
Total interest income	31,560	22,890	60,983	47,808
Interest expense				
Interest on deposits	13,337	2,016	23,146	4,346
Interest on Federal Home Loan Bank borrowings	248	314	493	666
Interest on subordinated notes	1,791	1,090	3,484	2,054
Total interest expense	15,376	3,420	27,123	7,066
Net interest income	16,184	19,470	33,860	40,742
Provision for (recovery of) credit losses	(2,902)	(1,109)	(2,228)	(5,398)
Net interest income after provision for (recovery of) credit losses	19,086	20,579	36,088	46,140
Non-interest income				
Service charges and fees	78	105	172	227
Loss on the sale of investment securities	—	—	(2)	—
Gain on sale of mortgage loans held for sale	1,720	3	1,695	200
Unrealized loss on equity securities	(71)	(170)	—	(406)
Net servicing income (loss)	102	(177)	161	266
Income earned on company-owned life insurance	81	255	161	583
Other	1	29	2	586
Total non-interest income	1,911	45	2,189	1,456
Non-interest expense				
Salaries and employee benefits	9,274	5,569	18,684	15,186
Occupancy and equipment	2,051	2,187	4,163	4,329
Professional fees	3,521	7,066	6,742	12,223
FDIC insurance assessments	263	346	520	715
Data processing	754	762	1,492	1,567
Net provision for (recovery of) mortgage repurchase liability	(59)	(312)	61	(525)
Other	1,537	3,876	3,516	5,422
Total non-interest expense	17,341	19,494	35,178	38,917
Income before income taxes	3,656	1,130	3,099	8,679
Income tax expense	1,117	3,327	1,063	5,616
Net income (loss)	$ 2,539	$ (2,197)	$ 2,036	$ 3,063
Income (loss) per share, basic and diluted	$ 0.05	$ (0.04)	$ 0.04	$ 0.06
Weighted average common shares outstanding:				
Basic	50,672,461	50,386,856	50,559,092	50,289,612
Diluted	50,778,213	50,386,856	50,705,998	50,496,487

See accompanying notes to condensed consolidated financial statements.

Sterling Bancorp, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	$ 2,539	$ (2,197)	$ 2,036	$ 3,063
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investment securities, arising during the period, net of tax effect of $(603), $(1,950), $451 and $(4,883), respectively	(1,593)	(5,142)	1,192	(12,685)
Reclassification adjustment for loss included in net income of $—, $—, $2 and $—, respectively, included in loss on sale of investment securities, net of tax effect of $—, $— $1, and $—, respectively	—	—	1	—
Total other comprehensive income (loss)	(1,593)	(5,142)	1,193	(12,685)
Comprehensive income (loss)	$ 946	$ (7,339)	$ 3,229	$ (9,622)

See accompanying notes to condensed consolidated financial statements.

Sterling Bancorp, Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2022	50,460,932	$ 82,157	$ 14,124	$ 248,243	$ (897)	$ 343,627
Net income	—	—	—	5,260	—	5,260
Repurchase of restricted shares to pay employee tax liability	(13,383)	—	(84)	—	—	(84)
Stock-based compensation	49,284	—	146	—	—	146
Other comprehensive loss	—	—	—	—	(7,543)	(7,543)
Balance at March 31, 2022	50,496,833	82,157	14,186	253,503	(8,440)	341,406
Net loss	—	—	—	(2,197)	—	(2,197)
Repurchase of restricted shares to pay employee tax liability	(16,345)	—	(112)	—	—	(112)
Issuance of shares of common stock to defined contribution retirement plan (Note 10)	160,978	1,138	—	—	—	1,138
Stock-based compensation	176,746	—	239	—	—	239
Other comprehensive loss	—	—	—	—	(5,142)	(5,142)
Balance at June 30, 2022	50,818,212	$ 83,295	$ 14,313	$ 251,306	$ (13,582)	$ 335,332
Balance at January 1, 2023	50,795,871	$ 83,295	$ 14,808	$ 234,049	$ (19,525)	$ 312,627
Cumulative effect adjustment of a change in accounting principle, net of tax, on adoption of ASU 2016-13 (Note 2)	—	—	—	778	—	778
Cumulative effect adjustment of a change in accounting principle, net of tax, on adoption of ASU 2022-02 (Note 2)	—	—	—	(276)	—	(276)
Net loss	—	—	—	(503)	—	(503)
Repurchase of restricted shares to pay employee tax liability	(12,166)	—	(75)	—	—	(75)
Stock-based compensation	24,411	—	173	—	—	173
Other comprehensive income	—	—	—	—	2,786	2,786
Balance at March 31, 2023	50,808,116	83,295	14,906	234,048	(16,739)	315,510
Net income	—	—	—	2,539	—	2,539
Repurchase of restricted shares to pay employee tax liability	(28,826)	—	(158)	—	—	(158)
Issuance of shares of common stock to defined contribution retirement plan (Note 10)	184,928	1,028	—	—	—	1,028
Stock-based compensation	1,117,668	—	350	—	—	350
Other comprehensive loss	—	—	—	—	(1,593)	(1,593)
Balance at June 30, 2023	52,081,886	$ 84,323	$ 15,098	$ 236,587	$ (18,332)	$ 317,676

See accompanying notes to condensed consolidated financial statements.

Sterling Bancorp, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash Flows From Operating Activities		
Net income	$ 2,036	$ 3,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) credit losses	(2,228)	(5,398)
Deferred income taxes	4,524	4,281
Loss on sale of investment securities	2	—
Unrealized loss on equity securities	—	406
Net amortization (accretion) on investment securities	(1,140)	(41)
Depreciation and amortization on leasehold improvements and equipment	693	787
Net principal payments (originations) of loans held for sale	(2,655)	2,250
Proceeds from sale of mortgage loans held for sale	2,979	1,831
Gain on sale of mortgage loans held for sale	(1,695)	(200)
Net provision for (recovery of) mortgage repurchase liability	61	(525)
Increase in cash surrender value of company-owned life insurance, net of premiums	(104)	(240)
Valuation allowance adjustments and amortization of mortgage servicing rights	136	280
Stock-based compensation	523	385
Other	(1)	(35)
Change in operating assets and liabilities:		
Accrued interest receivable	340	975
Other assets	1,843	2,735
Accrued expenses and other liabilities	(4,794)	(4,907)
Net cash provided by operating activities	520	5,647
Cash Flows From Investing Activities		
Maturities and principal receipts of investment securities	11,684	21,904
Sales of investment securities	2,977	—
Purchases of investment securities	(2,979)	(108,267)
Maturities (purchases) of investment securities, net	153	—
Proceeds received from redemption of Federal Home Loan Bank stock	—	2,662
Net decrease in loans	136,336	268,078
Purchases of portfolio loans	—	(31,002)
Principal payments received on loans held for sale previously classified as portfolio loans	1,959	2,521
Proceeds from loans held for sale previously classified as portfolio loans	37,930	49,610
Proceeds received from settlement of company-owned life insurance policies	—	20,234
Proceeds from the sales of equipment	46	—
Purchases of leasehold improvements and equipment	(254)	(214)
Net cash provided by investing activities	187,852	225,526
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	87,454	(257,488)
Repayments of Federal Home Loan Bank advances	—	(100,000)
Cash paid for surrender of vested shares to satisfy employee tax liability	(233)	(196)
Net cash provided by (used in) financing activities	87,221	(357,684)
Net change in cash and due from banks	275,593	(126,511)
Cash and due from banks at beginning of period	379,798	411,676
Cash and due from banks at end of period	$ 655,391	$ 285,165
Supplemental cash flows information		
Cash paid for:		
Interest	$ 26,382	$ 7,127
Income taxes	300	457
Noncash investing and financing activities:		
Transfer of residential real estate loans to loans held for sale	34,581	—
Transfer of residential real estate loans from loans held for sale	3,906	—
Shares of common stock issued in satisfaction of Company’s matching contribution in defined contribution retirement plan	1,028	1,138

See accompanying notes to condensed consolidated financial statements.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Note 1—Nature of Operations and Basis of Presentation

Nature of Operations

Sterling Bancorp, Inc. (unless stated otherwise or the context otherwise requires, together with its subsidiaries, the "Company") is a unitary thrift holding company that was incorporated in 1989 and the parent company of its wholly owned subsidiary, Sterling Bank and Trust, F.S.B. (the "Bank"). The Company's business is conducted through the Bank, which was formed in 1984. The Bank originates commercial real estate loans, commercial and industrial loans and consumer loans and provides deposit products, consisting primarily of checking, savings and term certificate accounts. Historically, the Company's largest asset class has been residential mortgage loans. The Bank's residential lending program has been suspended since the third-party residential lending service provider announced in November 2022 its intention to cease conducting business. Pending residential loan applications were processed through February 2023. The Company is currently performing an evaluation of its alternatives for new banking products and services. The Bank also engages in mortgage banking activities and, as such, acquires, sells and services residential mortgage loans. The Bank operates through a network of 28 branches of which 26 branches are located in the San Francisco and Los Angeles, California metropolitan areas with the remaining branches located in New York, New York and Southfield, Michigan.

The Company is headquartered in Southfield, Michigan, and its operations are in the financial services industry. Management evaluates the performance of the Company's business based on one reportable segment, community banking.

The Company is subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve System (the "FRB" or "Federal Reserve"). The Bank is a federally chartered stock savings bank that is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency ("OCC") of the U.S. Department of Treasury and the Federal Deposit Insurance Corporation ("FDIC") and is a member of the Federal Home Loan Bank ("FHLB") system.

Basis of Presentation

The condensed consolidated balance sheet as of June 30, 2023, and the condensed consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for the three and six months ended June 30, 2023 and 2022 are unaudited. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect all adjustments, in the opinion of management, of a normal recurring nature that are necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The financial data and other financial information disclosed in these notes to the condensed consolidated financial statements related to these periods are also unaudited. The results of operations for the three and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ended December 31, 2023 or for any future annual or interim period. The condensed consolidated balance sheet at December 31, 2022 included herein was derived from the audited financial statements as of that date. The accompanying unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the U.S. Securities and Exchange Commission (the "SEC") on March 16, 2023 (the "2022 Form 10-K").

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Note 2—Adoption of New Accounting Standards

In March 2022, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* (“ASU 2022-02”), which eliminates the accounting guidance for troubled debt restructurings by creditors and enhances disclosure requirements for certain loan refinancings and restructurings made to borrowers experiencing financial difficulty. Under the new guidance, creditors should evaluate all loan modifications to determine if they result in a new loan or a continuation of the existing loan under the general loan modification guidance. Public business entities are required to disclose current-period gross write-offs by year of origination for loan financing receivables and net investment in leases. The Company adopted the provisions of ASU 2022-02 on January 1, 2023 on a prospective basis, along with its adoption of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13*”)* as discussed in Note 3—Summary of Significant Accounting Policies. On the date of adoption, the Company recorded a cumulative effect adjustment of $276, net of tax, to decrease the opening balance of retained earnings as of January 1, 2023, for the initial application of ASU 2022-02. The cumulative effect adjustment represents the difference between the allowance previously determined under the troubled debt restructuring model and the allowance determined under the new credit loss accounting model for existing troubled debt restructuring loans on the adoption date.

In June 2016, the FASB issued ASU 2016-13 (and subsequent amendments), which significantly changes estimates for credit losses related to financial assets measured at amortized cost, including loan receivables and other contracts, such as off-balance sheet credit exposure, specifically, loan commitments and standby letters of credit, financial guarantees and other similar instruments. The guidance replaced the current incurred loss accounting model with an expected loss model, which is referred to as the current expected credit loss (“CECL”) model. The CECL model requires the measurement of the lifetime expected credit losses on financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Additionally, ASU 2016-13 requires credit losses on available for sale debt securities to be presented as an allowance rather than as a write-down. The guidance requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio.

The Company adopted ASU 2016-13 on January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while amounts for prior periods continue to be reported in accordance with previously applicable accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Company recorded a cumulative effect adjustment of $778, net of tax, to increase the opening balance of retained earnings as of January 1, 2023, for the initial application of CECL. Upon adoption, the allowance for credit losses for loans decreased by $1,651 primarily driven by the allowance for credit losses on the construction loan portfolio due to the short contractual maturities of the loans in this portfolio segment (all construction loans mature in 2023). This was partially offset by an increase in the allowance for credit losses in both the residential real estate and commercial real estate portfolio segments which have longer contractual maturities. In addition, the Company established a liability for unfunded commitments of $579.

The details of the changes and quantitative impact on the financial statement line items in the condensed consolidated balance sheet as of January 1, 2023 for the adoption of ASU 2016-13, along with the adoption of ASU 2022-02, were as follows:

	Prior to Adoption	Adjustments for ASU 2016-13	Adjustments for ASU 2022-02	After Adoption
Assets:				
Allowance for credit losses – loans	$ 45,464	$ (1,651)	$ 380	$ 44,193
Liabilities:				
Liability for unfunded commitments	—	579	—	579
Pretax cumulative effect adjustment of a change in accounting principle		(1,072)	380	
Less: income taxes		294	(104)	
Cumulative effect adjustment of a change in accounting principle, net of tax		$ (778)	$ 276	

The loan portfolio is pooled into segments with similar characteristics and risk profiles for which the probability of default/loss given default methodology is then applied. The Company utilizes a 24-month economic forecast. For all classes of financial assets deemed collateral dependent, the Company elected the practical expedient to estimate the expected credit losses based on the respective collateral's fair value less cost to sell.

The Company also made an accounting policy election to not measure an allowance for credit losses on accrued interest receivable and to present accrued interest receivable separately from the related financial asset on the condensed consolidated balance sheet.

The Company's available for sale debt securities are comprised of debt, mortgage-backed securities and collateralized mortgage obligations. The debt, mortgage-backed securities and the majority of the collateralized mortgage obligations are issued by the U.S. government, its agencies and government-sponsored enterprises. The Company has a long history with no credit losses from these issuers. Thus, the Company has not recorded an allowance for credit losses for its available for sale debt securities at the date of adoption.

As stated, the comparative prior period information presented before January 1, 2023 has not been adjusted and continues to be reported under the Company's historical allowance for loan losses policies as described in Note 2 to the consolidated financial statements in the 2022 Form 10-K.

Note 3— Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP. The condensed consolidated financial statements include the results of Sterling Bancorp, Inc. and its wholly-owned subsidiaries.

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

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Due to the inherent uncertainty involved in making estimates, actual results reported in the future periods may be based upon amounts that could differ from those estimates.

Concentration of Credit Risk

The loan portfolio consists primarily of residential real estate loans, which are collateralized by real estate. At June 30, 2023 and December 31, 2022, residential real estate loans accounted for 82% and 84%, respectively, of total gross loans. In addition, most of these residential loans and other commercial loans have been made to individuals and businesses in the state of California, which are dependent on the area economy for their livelihoods and servicing of their loan obligation. At June 30, 2023 and December 31, 2022, approximately 80% and 81%, respectively, of gross loans were originated with respect to properties or businesses located in the state of California.

In December 2019, the Company terminated a loan product consisting of one-, three-, five- or seven-year adjustable-rate mortgages that required a down payment of at least 35% (also referred to herein as "Advantage Loan Program loans") which continues to be the largest portion of gross residential loans. An internal review of the Advantage Loan Program indicated that certain employees engaged in misconduct in connection with the origination of a significant number of such loans, including with respect to verification of income, the amount of income reported for borrowers, reliance on third parties and related documentation. Refer to Note 17—Commitments and Contingencies.

Advantage Loan Program loans (including residential real estate loans held for sale of $6,181 at December 31, 2022) totaled $731,359 and $880,373, or 60% and 63% of gross residential loans, at June 30, 2023 and December 31, 2022, respectively.

Investment Securities

Debt Securities (Effective January 1, 2023)

Debt securities are classified as either available for sale or held to maturity. Management determines the classification of the debt securities when they are purchased.

All debt securities were categorized as available for sale as of June 30, 2023 and December 31, 2022. Available for sale debt securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive loss, net of income taxes. The amortized cost of debt securities is adjusted for amortization of premiums (noncallable) and accretion of discounts. The Company amortizes premiums and accretes discounts using the effective interest method over the contractual life of the individual securities or, in the case of asset-backed securities, using the effective yield method over the estimated life of the individual securities.

Interest income includes amortization or accretion of purchase premium or discount. Gains and losses realized on the sales of available for sale debt securities are recorded on the settlement date and determined using the specific identification method.

For available for sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available for sale debt securities that do not meet the aforementioned criteria, the Company evaluates at the individual security level whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of income taxes.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit losses. Losses are charged against the allowance for credit losses when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available for sale debt securities is recorded separately from the amortized cost basis of the debt securities in the condensed consolidated balance sheets and is excluded from the estimate of credit losses.

Equity Securities

Equity securities with readily determinable fair values are stated at fair value with unrealized and realized gains and losses reported in income. Those equity securities without readily determinable fair values are recorded at cost less any impairments, adjusted for subsequent observable price changes in orderly transactions for an identical or similar investment of the same issuer. Any changes in the carrying value of the equity investments are recognized in income.

Management performs a qualitative assessment each reporting period to identify impairment of equity securities without readily determinable fair values. When a qualitative assessment indicates that an impairment exists, management determines the fair value of the investment and if the fair value is less than the investment's carrying value, an impairment charge is recorded in income equal to the difference between the fair value and the carrying amount of the investment.

Loans Held for Sale

The Company originates certain loans intended for sale in the secondary market. Loans held for sale are carried at the lower of amortized cost or fair value on an individual loan basis. The fair value of loans held for sale are primarily determined based on quoted prices for similar loans in active markets or outstanding commitments from third-party investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to non-interest income in the condensed consolidated statements of operations.

Performing residential real estate loans that are held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. On the sale of an originated loan, the servicing right is recorded at its estimated fair value. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold and are recorded as a component of non-interest income.

Loans that are originated and classified as held for investment are periodically sold in order to manage liquidity, asset credit quality, interest rate risk or concentration risk. Loans that are reclassified into loans held for sale from loans held for investment, due to a change in intent, are recorded at the lower of cost or fair value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at amortized cost, net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, and deferred loan fees and costs. Accrued interest receivable related to loans is recorded separately from the amortized cost basis of loans on the condensed consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and amortized over the contractual lives of the respective loans as a yield adjustment using the effective interest method. Other credit-related fees are recognized as fee income, as a component of non-interest income.

Interest income on loans is accrued as earned using the interest method over the term of the loan. The accrual of interest income is discontinued at the time the loan is 90 days past due or earlier if conditions warrant and placed on nonaccrual status. In all cases, loans are placed on nonaccrual status at an earlier date if collection of principal or interest is considered doubtful. All interest accrued and not received for loans placed on nonaccrual status is reversed against interest income. Any payments received on nonaccrual loans are applied to interest income on a cash basis if the loan is considered well secured. Otherwise, all payments received are applied first to outstanding loan principal amounts and then to the recovery of the charged off loan amounts. Any excess is treated as a recovery of interest and fees. Loans are returned to accrual status after all principal and interest amounts contractually due are made and future payments are reasonably assured.

Allowance for Credit Losses - Loans (Effective January 1, 2023)

The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of held for investment loans to present the net amount expected to be collected on the loans. The allowance for credit losses is adjusted through a charge (recovery) to provision for (recovery of) credit losses in the condensed consolidated statements of operations. When the Company determines that all or a portion of a loan is uncollectible, the appropriate amount is written off, and the allowance for credit losses is reduced by the same amount. The Company applies judgment to determine when a loan is deemed uncollectible; however, generally a loan will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the allowance for credit losses when received. Portions of the allowance for credit losses may be allocated for specific credits; however, the entire allowance for credit losses is available for any credit that, in management's judgment, should be charged off.

The Company estimates the allowance for credit losses on loans based on the underlying loans' amortized cost. If the collection of principal becomes uncertain, the Company stops accruing interest and reverses the accrued but unpaid interest against interest income. The Company has made a policy election to exclude accrued interest receivable from the measurement of the allowance for credit losses. The allowance for credit losses process involves procedures to appropriately consider the unique characteristics of the Company's portfolio segments. The allowance for credit losses is measured on a collective (pool) basis for portfolios of loans with similar risk characteristics and risk profiles. The Company's portfolio segments include the following: (i) commercial real estate, (ii) commercial construction, (iii) commercial and industrial, (iv) residential real estate and (v) home equity lines of credit. These portfolio segments were identified based on their common characteristics: loan type/purpose of loan, underlying collateral type, historical/expected credit loss patterns, availability of credit quality indicators (i.e., FICO, risk rating, delinquency) and completeness of the historical information. Loans which do not share risk characteristics—generally, nonaccrual commercial and construction loans, and collateral-dependent loans where the borrower is experiencing financial difficulty — are individually assessed for credit loss. The Company has elected, as a practical expedient, to measure the allowance for credit losses on a collateral-dependent loan, where the borrower is experiencing financial difficulty, at the fair value of the collateral less estimated costs to sell. The portfolio segments are reviewed at least annually or when major changes occur in the loan portfolio to ensure that the segmentation is still appropriate.

The amount of the allowance for credit losses represents management's best estimate of current expected credit losses on loans considering available information from internal and external sources, which is relevant to assessing collectability of the loans over the loans' contractual terms, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals and modifications unless: (i) management has a reasonable expectation at the reporting date that an individual borrower is experiencing financial difficulty and a modification of the loan will be executed, or (ii) the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The Company estimates the allowance for credit losses using relevant available information related to past events, current conditions, and reasonable and supportable forecasts. In determining the total allowance for credit losses, the Company calculates the quantitative portion of the allowance for credit losses using a methodology, the Advanced Probability of Default model, a logistic regression model, and adds qualitative adjustments to the model results and the results from any individual loan assessments.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

The Advanced Probability of Default model estimates the expected lifetime net charge off balance utilizing the following: (i) probability that the loan will stop performing or default; (ii) probability that a loan will pay-off entirely prior to maturity; and (iii) macroeconomic variables, including but not limited to unemployment rates, gross domestic product, and the Treasury Yield Curve. This information is specific to each portfolio segment, though not necessarily solely reliant on internally sourced data. Internal data is supplemented by, but not replaced by, peer data when required, primarily to determine the probability of default. The Company then applies a recovery rate to reflect the recoveries over an approximate 10-year period.

The probability of default is estimated by analyzing the relationship between the historical performance of each loan pool and historical economic trends over a complete economic cycle. The probability of default for each pool is adjusted using a statistical model to reflect the current impact of certain macroeconomic variables and their expected changes over a reasonable and supportable forecast period of eight quarters. The Company determined that it was reasonably able to forecast the macroeconomic variables used in the forecast modeling processes with an acceptable degree of confidence for a total of eight quarters. This forecast period is followed by a reversion process whereby the macroeconomic variables are relaxed to revert to the average historical loss rates for periods after the forecasted eight-quarter period.

Management qualitatively adjusts the allowance for credit loss model results for risk factors not considered within the quantitative modeling processes but are nonetheless relevant in assessing the expected credit losses within the portfolio segments. These qualitative risk factor adjustments may increase or decrease management’s estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. Qualitative risk factors considered include adjustments for model limitations, management’s adjustments to economic market forecasts and other current or forecasted events not captured in the Company’s historical loss experience.

For loans that do not share risk characteristics that are evaluated on an individual basis, specific allocations of the allowance for credit losses are determined by analyzing the borrower’s ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower’s industry, among other things. In such cases, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The Company reevaluates the fair value of collateral supporting collateral dependent loans on an annual basis.

As disclosed above, the Company has identified the following portfolio segments used in measuring its expected credit losses in the loan portfolio and their respective risk characteristics.

The Residential Real Estate Mortgages portfolio includes residential first mortgages and residential second mortgages. The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower’s ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators, particularly at the regional and local levels, are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers’ capacity to repay their obligations may be deteriorating.

The Home Equity Lines of Credit portfolio includes residential second mortgages in the form of a revolving line of credit that requires interest only payments for a period followed by an amortizing period. These loans have higher risk of default compared to first liens making it harder to rely on loan-to-value ratios and loan balances can fluctuate. These loans are secured by the residential real estate by serving as a second lien behind the first mortgage lien.

The Commercial Real Estate portfolio includes commercial loans made to many types of businesses involving retail, multifamily, offices, hotels/single-room occupancy hotels, industrial and other commercial properties. Adverse economic developments or an overbuilt market may impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

The Construction Loans portfolio is comprised of loans to builders and developers primarily for residential, commercial and mixed-use development. In addition to general commercial real estate risks, construction loans have additional risk of cost overruns, market deterioration during construction, lack of permanent financing, and no operating history.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

The Commercial and Industrial portfolio is comprised of loans to many types of businesses for their operating needs of the business. The risk characteristics of these loans vary based on the borrowers' business and industry as repayment is typically dependent on cash flows generated from the underlying business. These loans may be secured by real estate or other assets or may be unsecured.

Liability for Unfunded Commitments (Effective January 1, 2023)

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for these off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk through a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The estimate of expected credit losses generally follows the same methodology as the funded loans by utilizing the loss rates generated for each portfolio segment with an adjustment for the probability of funding to occur. The liability for unfunded commitments, which is recorded in accrued expenses and other liabilities in the condensed consolidated balance sheets, is adjusted through the provision for (recovery of) credit losses.

Note 4—Investment Securities

Debt Securities

The following tables summarize the amortized cost and fair value of debt securities available for sale at June 30, 2023 and December 31, 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss:

	June 30, 2023			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Available for sale:				
U.S. Treasury and Agency securities	$ 176,768	$ 13	$ (6,709)	$ 170,072
Mortgage-backed securities	38,883	—	(4,373)	34,510
Collateralized mortgage obligations	143,987	79	(14,284)	129,782
Collateralized debt obligations	155	—	(11)	144
Total	$ 359,793	$ 92	$ (25,377)	$ 334,508

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Available for sale:				
U.S. Treasury and Agency securities	$ 175,878	$ 17	$ (7,458)	$ 168,437
Mortgage-backed securities	41,388	—	(4,655)	36,733
Collateralized mortgage obligations	153,066	4	(14,829)	138,241
Collateralized debt obligations	157	—	(10)	147
Total	$ 370,489	$ 21	$ (26,952)	$ 343,558

Investment securities with a fair value of $107,515 were pledged as collateral on the FHLB borrowings at June 30, 2023. Additionally, investment securities with a fair value of $62,557 were held by the FRB as collateral for available borrowings under the Bank Term Funding Program.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Accrued interest receivable on available for sale debt securities totaled $861 and $808 at June 30, 2023 and December 31, 2022, respectively.

The mortgage-backed securities, and a majority of the collateralized mortgage obligations are issued and/or guaranteed by a U.S. government agency (Government National Mortgage Association) or a U.S. government-sponsored enterprise (Federal Home Loan Mortgage Corporation ("Freddie Mac") or Federal National Mortgage Association ("Fannie Mae")). The fair value of the private-label collateralized mortgage obligations was $338 and $353 at June 30, 2023 and December 31, 2022, respectively.

No securities of any single issuer, other than debt securities issued by the U.S. government, government agency and government-sponsored enterprises, were in excess of 10% of total shareholders' equity as of June 30, 2023 and December 31, 2022.

Information pertaining to the sales of available for sale debt securities for the three and six months ended June 30, 2023 and 2022 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Proceeds from the sale of debt securities	$ —	$ —	$ 2,977	$ —
Gross realized gains	$ —	$ —	$ 1	$ —
Gross realized losses	—	—	(3)	—
Total net realized losses	$ —	$ —	$ (2)	$ —

The income tax expense related to the net realized losses was $1 for the six months ended June 30, 2023.

The amortized cost and fair value of U.S. Treasury and Agency securities at June 30, 2023 are shown by contractual maturity in the table below. Mortgage-backed securities, collateralized mortgage obligations and collateralized debt obligations are disclosed separately as the expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
U.S. Treasury and Agency securities:		
Due less than one year	$ 97,419	$ 96,169
Due after one year through five years	79,349	73,903
Mortgage-backed securities	38,883	34,510
Collateralized mortgage obligations	143,987	129,782
Collateralized debt obligations	155	144
Total	$ 359,793	$ 334,508

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

The following table summarizes available for sale debt securities, at fair value, in an unrealized loss position for which an allowance for credit losses has not been recorded at June 30, 2023 and December 31, 2022, aggregated by major security type and length of time the individual debt securities have been in a continuous unrealized loss position:

	June 30, 2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and Agency securities	$ 39,572	$ (323)	$ 107,487	$ (6,386)	$ 147,059	$ (6,709)
Mortgage-backed securities	5,628	(167)	28,882	(4,206)	34,510	(4,373)
Collateralized mortgage obligations	23,891	(678)	94,351	(13,606)	118,242	(14,284)
Collateralized debt obligations	—	—	144	(11)	144	(11)
Total	$ 69,091	$ (1,168)	$ 230,864	$ (24,209)	$ 299,955	$ (25,377)

	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and Agency securities	$ 100,815	$ (2,839)	$ 44,605	$ (4,619)	$ 145,420	$ (7,458)
Mortgage-backed securities	5,792	(139)	30,941	(4,516)	36,733	(4,655)
Collateralized mortgage obligations	69,088	(3,169)	64,715	(11,660)	133,803	(14,829)
Collateralized debt obligations	—	—	147	(10)	147	(10)
Total	$ 175,695	$ (6,147)	$ 140,408	$ (20,805)	$ 316,103	$ (26,952)

As of June 30, 2023, the debt securities portfolio consisted of 32 debt securities, with 27 debt securities in an unrealized loss position. For debt securities in an unrealized loss position, the Company has both the intent and ability to hold these investments and, based on current conditions, the Company does not believe it is likely that it will be required to sell these debt securities prior to recovery of the amortized cost. As the Company had the intent and the ability to hold the debt securities in an unrealized loss position at June 30, 2023, each security with an unrealized loss position was further assessed to determine if a credit loss exists.

The Company's debt, mortgage-backed securities and the majority of the collateralized mortgage obligations are issued by the U.S. government, its agencies and government-sponsored enterprises. The Company has a long history with no credit losses from issuers of U.S. government, its agencies and government-sponsored enterprises. Also, the Company's available for sale debt securities are explicitly or implicitly fully guaranteed by the U.S. government. As a result, management does not expect any credit losses on its available for sale debt securities. Accordingly, the Company has not recorded an allowance for credit losses for its available for sale debt securities at June 30, 2023. Similarly, for the same reasons noted above, as of December 31, 2022, the Company determined that the unrealized losses in these securities were due to non-credit-related factors, including changes in interest rates and other market conditions.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Equity Securities

Equity securities consist of an investment in a qualified community reinvestment act investment fund, which is a publicly-traded mutual fund and an investment in the common equity of Pacific Coast Banker's Bank, a thinly traded restricted stock. At June 30, 2023 and December 31, 2022, equity securities totaled $4,640 and $4,642, respectively.

Equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in non-interest income in the condensed consolidated statements of operations. At June 30, 2023 and December 31, 2022, equity securities with readily determinable fair values were $4,394 and $4,396, respectively. The following is a summary of unrealized and realized gains and losses recognized in the condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss recorded during the period on equity securities	$ (71)	$ (170)	$ —	$ (406)
Less: net gains (loss) recorded during the period on equity securities sold during the period	—	—	—	—
Unrealized loss recorded during the period on equity securities held at the reporting date	$ (71)	$ (170)	$ —	$ (406)

The Company has elected to account for its investment in a thinly traded, restricted stock using the measurement alternative for equity securities without readily determinable fair values, resulting in the investment carried at cost based on no evidence of impairment or observable trading activity during the six months ended June 30, 2023 and 2022. The investment was reported at $246 at June 30, 2023 and December 31, 2022.

Note 5—Loans

Loans Held for Sale

The major categories of loans held for sale were as follows:

	June 30, 2023	December 31, 2022
Residential real estate	$ —	$ 6,181
Commercial real estate	—	1,544
Total loans held for sale	$ —	$ 7,725

At December 31, 2022, loans held for sale included nonaccrual residential real estate loans of $1,942.

In March 2023, residential real estate loans held for investment with an amortized cost of $41,059 were transferred to loans held for sale due to management's change in intent and decision to sell the loans. On the transfer, the Company recorded a $6,478 charge off applied against the allowance for credit losses to reflect these loans at their estimated fair value. In addition, residential real estate loans held for sale with an amortized cost of $3,906 were transferred to loans held for investment due to management's change in intent and decision to not sell the loans.

During the three months ended June 30, 2023, the Company sold loans held for sale, with a carrying value of $36,210 on the date of sale to a third party for net cash proceeds of $37,930. The Company recorded a gain on the sale of the loans of $1,720.

In February 2022, the Company sold substantially all of its commercial real estate loans held for sale, which loans had a carrying value of $49,455 on the date of sale, to a third party for cash proceeds of $49,610.

(dollars in thousands, except share and per share amounts)

Loans Held for Investment and Allowance for Credit Losses

The major categories of loans held for investment and the allowance for credit losses were as follows:

	June 30, 2023	December 31, 2022
Residential real estate	$ 1,214,439	$ 1,391,276
Commercial real estate	221,658	221,669
Construction	31,978	44,503
Commercial and industrial	17,772	1,396
Other consumer	15	5
Total loans	1,485,862	1,658,849
Less: allowance for credit losses	(36,153)	(45,464)
Loans, net	$ 1,449,709	$ 1,613,385

Accrued interest receivable related to total gross loans, including loans held for sale, was $6,440 and $6,894 as of June 30, 2023 and December 31, 2022, respectively.

As disclosed above, residential real estate loans with an amortized cost of $41,059 were transferred to loans held for sale and subsequently sold in May 2023. Also, in March 2023, residential real estate loans with an amortized cost of $3,906 were transferred from loans held for sale to loans held for investment.

Loans totaling $457,984 and $389,830 were pledged as collateral on the FHLB borrowings at June 30, 2023 and December 31, 2022, respectively.

During the three months ended June 30, 2022, the Bank repurchased a pool of Advantage Loan Program loans with a total outstanding principal balance of $30,380. In connection with this repurchase, the Company recognized a loss of $695 related to a fair value discount in other non-interest expense and a disposition of $376 of mortgage servicing rights, and a loss of $622 against the mortgage repurchase liability.

The Advantage Loan Program loans that had been repurchased and included in the loan portfolio have an outstanding principal balance of $154,765 and $179,828 at June 30, 2023 and December 31, 2022, respectively. For more information on the repurchases of Advantage Loan Program loans, refer to Note 17—Commitments and Contingencies.

The allowance for credit losses at June 30, 2023 was estimated using the current expected credit loss model. The Company's estimate of the allowance for credit losses reflects losses expected over the remaining contractual life of the loans. The contractual term does not consider extensions, renewals or modifications unless the Company has identified a loan where the individual borrower is experiencing financial difficulty. The following tables present the activity in the allowance for credit losses related to loans held for investment by portfolio segment for the three and six months ended June 30, 2023:

Three Months Ended June 30, 2023	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Other Consumer	Total
Allowance for credit losses:						
Balance at the beginning of the period	$ 20,498	$ 16,067	$ 1,994	$ 6	$ —	$ 38,565
Provision for (recovery of) credit losses	(3,895)	566	480	35	—	(2,814)
Charge offs	—	—	—	—	—	—
Recoveries	306	95	1	—	—	402
Total ending balance	$ 16,909	$ 16,728	$ 2,475	$ 41	$ —	$ 36,153

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Six Months Ended June 30, 2023	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Other Consumer	Total
Allowance for credit losses:						
Balance at the beginning of the period	$ 27,951	$ 11,694	$ 5,781	$ 38	$ —	$ 45,464
Adoption of ASU 2016-13	865	1,151	(3,633)	(34)	—	(1,651)
Adoption of ASU 2022-02	(11)	—	391	—	—	380
Provision for (recovery of) credit losses	(5,784)	3,783	(66)	37	—	(2,030)
Charge offs	(6,478)	—	—	—	—	(6,478)
Recoveries	366	100	2	—	—	468
Total ending balance	$ 16,909	$ 16,728	$ 2,475	$ 41	$ —	$ 36,153

The following tables present the activity in the allowance for loan losses for the three and six months ended June 30, 2022, as determined in accordance with ASC 310, *Receivables* (“ASC 310”), prior to the adoption of ASU 2016-13:

Three Months Ended June 30, 2022	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 29,911	$ 13,709	$ 8,829	$ 6	$ —	$ 52,455
Provision for (recovery of) loan losses	(272)	1,251	(2,123)	30	5	(1,109)
Charge offs	(197)	—	—	—	—	(197)
Recoveries	540	75	2	—	—	617
Total ending balance	$ 29,982	$ 15,035	$ 6,708	$ 36	$ 5	$ 51,766

Six Months Ended June 30, 2022	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 32,202	$ 12,608	$ 11,730	$ 8	$ —	$ 56,548
Provision for (recovery of) loan losses	(2,753)	2,347	(5,025)	28	5	(5,398)
Charge offs	(197)	—	—	—	—	(197)
Recoveries	730	80	3	—	—	813
Total ending balance	$ 29,982	$ 15,035	$ 6,708	$ 36	$ 5	$ 51,766

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Prior to the adoption of ASU 2016-13, the Company individually evaluated commercial real estate loans, construction loans and commercial lines of credit for impairment and large homogeneous loans, such as residential real estate loans and other consumer loans were collectively evaluated for impairment. The following table presents loans individually and collectively evaluated for impairment and their respective allowance for credit loss allocation as of December 31, 2022, as determined in accordance with ASC 310, prior to the adoption of ASU 2016-13:

December 31, 2022	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 11	$ —	$ —	$ —	$ —	$ 11
Collectively evaluated for impairment	27,940	11,694	5,781	38	—	45,453
Total ending allowance balance	$ 27,951	$ 11,694	$ 5,781	$ 38	$ —	$ 45,464
Loans:						
Loans individually evaluated for impairment	$ 45	$ —	$ 2,485	$ 107	$ —	$ 2,637
Loans collectively evaluated for impairment	1,391,231	221,669	42,018	1,289	5	1,656,212
Total ending loans balance	$ 1,391,276	$ 221,669	$ 44,503	$ 1,396	$ 5	$ 1,658,849

The following table presents information related to impaired loans by class of loans as of December 31, 2022, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13:

	At December 31, 2022		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses
With no related allowance for loan losses recorded:			
Commercial real estate:			
Retail	$ 227	$ —	$ —
Construction	2,485	2,485	—
Commercial lines of credit:			
Private banking	107	107	—
Subtotal	2,819	2,592	—
With an allowance for loan losses recorded:			
Residential real estate, first mortgage	79	45	11
Total	$ 2,898	$ 2,637	$ 11

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

The following table presents average impaired loans, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13, and interest recognized on such loans, for the three and six months ended June 30, 2022:

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance for loan losses recorded:						
Residential real estate, first mortgage	$ 55	$ 1	$ 1	$ 57	$ 1	$ 1
Construction	8,320	39	26	8,340	78	65
Commercial lines of credit:						
Private banking	113	1	1	114	3	3
Subtotal	8,488	41	28	8,511	82	69
With an allowance for loan losses recorded:						
Residential real estate, first mortgage	142	—	—	190	1	1
Total	$ 8,630	$ 41	$ 28	$ 8,701	$ 83	$ 70

Nonaccrual Loans and Past Due Loans

Past due loans held for investment are loans contractually past due 30 days or more as to principal or interest payments. A loan held for investment is classified as nonaccrual, and the accrual of interest on such loan is discontinued, when the contractual payment of principal or interest becomes 90 days past due. In addition, a loan may be placed on nonaccrual at any other time management has serious doubts about further collectability of principal or interest according to the contractual terms, even though the loan is currently performing. A loan held for investment may remain in accrual status if it is in the process of collection and well secured. When a loan held for investment is placed in nonaccrual status, interest accrued but not received is reversed against interest income. Interest received on such loans is applied to the principal balance of the loan until qualifying for return of accrual status. Loans are returned to accrual status after all principal and interest amounts contractually due are made to return the loan to current status and future payments are reasonably assured.

The following table presents the amortized cost basis of loans on nonaccrual status, amortized cost basis of loans on nonaccrual status with no related allowance for credit losses and loans past due 90 days or more and still accruing as of June 30, 2023 and December 31, 2022:

	June 30, 2023			December 31, 2022		
	Nonaccrual Loans	Nonaccrual With No Allowance for Credit Losses	Past Due 90 Days or More and Still Accruing	Nonaccrual Loans	Nonaccrual With No Allowance for Credit Losses	Past Due 90 Days or More and Still Accruing
Residential real estate:						
Residential first mortgage	$ 2,062	$ —	$ 33	$ 33,501	$ —	$ 35
Residential second mortgage	—	—	—	189	—	—
Total	$ 2,062	$ —	$ 33	$ 33,690	$ —	$ 35

At June 30, 2023, the Company had nonaccrual loans of $2,062 in its held for investment loan portfolio. The decrease in nonaccrual loans from December 31, 2022 is primarily due to nonaccrual loans of $24,406 that were transferred to held for sale in March 2023 and subsequently sold in May 2023, and nonaccrual loans of $4,231 that were charged off to the allowance for credit losses. The remainder of the decrease in nonaccrual loans is primarily due to loans of $3,649 that were paid in full and loans of $5,538 that were returned to accrual status. Partially offsetting these decreases, loans totaling $6,358 were added to nonaccrual status, a portion of which were transferred to held for sale and sold in May 2023.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

The total interest income that would have been recorded if the nonaccrual loans had been current in accordance with their original terms was $41 and $632 for the three months ended June 30, 2023 and 2022, respectively, and $49 and $1,387 for the six months ended June 30, 2023 and 2022, respectively. The Company does not record interest income on nonaccrual loans.

Aging Analysis of Past Due Loans

The following table presents an aging of the amortized cost basis of contractually past due loans as of June 30, 2023:

June 30, 2023	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total
Residential real estate	$ 12,633	$ 2,385	$ 2,095	$ 17,113	$ 1,197,326	$ 1,214,439
Commercial real estate	—	—	—	—	221,658	221,658
Construction	—	—	—	—	31,978	31,978
Commercial and industrial	—	—	—	—	17,772	17,772
Other consumer	—	—	—	—	15	15
Total	$ 12,633	$ 2,385	$ 2,095	$ 17,113	$ 1,468,749	$ 1,485,862

The following table presents the aging of the recorded investment in past due loans, presented in accordance with ASC 310, as of December 31, 2022, by class of loans:

December 31, 2022	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total
Residential real estate:						
Residential first mortgage	$ 17,881	$ 5,337	$ 33,536	$ 56,754	$ 1,324,545	$ 1,381,299
Residential second mortgage	99	—	189	288	9,689	9,977
Commercial real estate:						
Retail	—	—	—	—	28,971	28,971
Multifamily	—	—	—	—	81,444	81,444
Office	—	—	—	—	39,610	39,610
Hotels/Single-room occupancy hotels	—	—	—	—	5,208	5,208
Industrial	—	—	—	—	30,242	30,242
Other	—	—	—	—	36,194	36,194
Construction	—	—	—	—	44,503	44,503
Commercial lines of credit:						
Private banking	—	—	—	—	107	107
C&I lending	—	—	—	—	1,289	1,289
Other consumer	—	—	—	—	5	5
Total	$ 17,980	$ 5,337	$ 33,725	$ 57,042	$ 1,601,807	$ 1,658,849

Collateral-Dependent Loans

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For all classes of financial assets deemed collateral-dependent, the Company estimates the expected credit losses based on the collateral's fair value less cost to sell. At June 30, 2023, the Company did not have any collateral-dependent loans held for investment.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Historically, the Company has provided loan forbearances to residential borrowers when mandated and modified construction loans by providing term extensions. The Company did not have any loans held for investment made to borrowers experiencing financial difficulty that were modified during the six months ended June 30, 2023. The Company did not have any loans held for investment made to borrowers experiencing financial difficulty that were previously modified that subsequently defaulted during the six months ended June 30, 2023.

Foreclosure Proceedings

At June 30, 2023, there were no loans in formal foreclosure proceedings. At December 31, 2022, the recorded investment of residential mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $5,711. Of the loans in formal foreclosure proceedings, $603 were included in loans held for sale in the condensed consolidated balance sheet at December 31, 2022 and were carried at the lower of amortized cost or fair value. The balance of the loans at December 31, 2022 were classified as held for investment and received an allocation of the allowance for credit losses consistent with a substandard loan loss allocation rate as the loans were classified as substandard.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes homogeneous loans, such as residential real estate and other consumer loans, and non-homogeneous loans, such as commercial and industrial, construction and commercial real estate loans. This analysis is performed at least quarterly. The Company uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered pass-rated loans.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

For residential and consumer loan classes, the Company evaluates credit quality based on the accrual status of the loan. The following table presents the amortized cost in residential loans based on accrual status:

As of June 30, 2023	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Costs Basis	Revolving Loans Converted to Term	Total
Residential lending									
Residential mortgage loans:									
Payment performance:									
Accrual	$ 769	$ 74,348	$ 134,911	$ 104,879	$ 242,793	$ 645,863	$ 8,522	$ 292	$ 1,212,377
Nonaccrual	—	—	—	—	352	1,710	—	—	2,062
Total residential mortgage loans	$ 769	$ 74,348	$ 134,911	$ 104,879	$ 243,145	$ 647,573	$ 8,522	$ 292	$ 1,214,439
Residential mortgage loans:									
Current period gross write offs	$ —	$ —	$ —	$ —	$ 1,858	$ 4,601	$ 19	$ —	$ 6,478

The amortized cost basis by year of origination and credit quality indicator of the Company's commercial loans based on the most recent analysis performed was as follows:

As of June 30, 2023	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Costs Basis	Revolving Loans Converted to Term	Total
Commercial lending									
Real estate - construction:									
Risk rating									
Pass	$ —	$ —	$ —	$ 9,886	$ 5,496	$ 6,711	$ —	$ —	$ 22,093
Special mention	—	—	—	—	—	—	—	—	—
Substandard or lower	—	—	—	—	9,885	—	—	—	9,885
Total real estate – construction	$ —	$ —	$ —	$ 9,886	$ 15,381	$ 6,711	$ —	$ —	$ 31,978
Real estate – construction:									
Current period gross charge offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial:									
Risk rating									
Pass	$ 16,433	$ 1,086	$ —	$ —	$ —	$ 104	$ 34	$ 115	$ 17,772
Total commercial and industrial	$ 16,433	$ 1,086	$ —	$ —	$ —	$ 104	$ 34	$ 115	$ 17,772
Commercial and industrial:									
Current period gross charge offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate – commercial real estate:									
Risk rating									
Pass	$ 6,955	$ 80,566	$ 36,569	$ 35,538	$ 7,011	$ 14,078	$ —	$ —	$ 180,717
Special mention	—	3,622	—	2,740	8,709	5,433	—	—	20,504
Substandard or lower	—	—	11,763	—	2,837	5,837	—	—	20,437
Total real estate – commercial real estate	$ 6,955	$ 84,188	$ 48,332	$ 38,278	$ 18,557	$ 25,348	$ —	$ —	$ 221,658
Real estate – commercial mortgage:									
Current period gross charge offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

(dollars in thousands, except share and per share amounts)

The credit risk profiles by internally assigned grade for loans by class of loans as of December 31, 2022, as determined in accordance with ASC 310, prior to the adoption of ASU 2016-13, were as follows:

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Residential real estate:					
Residential first mortgage	$ 1,347,763	$ —	$ 33,536	$ —	$ 1,381,299
Residential second mortgage	9,788	—	189	—	9,977
Commercial real estate:					
Retail	28,971	—	—	—	28,971
Multifamily	67,361	14,083	—	—	81,444
Office	39,610	—	—	—	39,610
Hotels/ Single-room occupancy hotels	—	3,669	1,539	—	5,208
Industrial	30,242	—	—	—	30,242
Other	21,036	15,158	—	—	36,194
Construction	31,369	4,650	8,484	—	44,503
Commercial lines of credit:					
Private banking	107	—	—	—	107
C&I lending	1,289	—	—	—	1,289
Other consumer	5	—	—	—	5
Total	$ 1,577,541	$ 37,560	$ 43,748	$ —	$ 1,658,849

Note 6—Mortgage Servicing Rights, net

The Company records servicing assets from the sale of residential real estate mortgage loans to the secondary market for which servicing has been retained. Residential real estate mortgage loans serviced for others are not included in the condensed consolidated balance sheets. The principal balance of these loans at June 30, 2023 and December 31, 2022 are as follows:

	June 30, 2023	December 31, 2022
Residential real estate mortgage loan portfolios serviced for:		
FNMA	$ 109,527	$ 113,704
FHLB	32,206	34,282
Private investors	37,391	43,274
Total	$ 179,124	$ 191,260

Custodial escrow balances maintained with these serviced loans were $540 and $380 at June 30, 2023 and December 31, 2022, respectively. These balances are included in noninterest-bearing deposits in the condensed consolidated balance sheets.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Activity for mortgage servicing rights and the related valuation allowance are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Mortgage servicing rights:				
Beginning of period	$ 1,766	$ 3,088	$ 1,840	$ 3,332
Additions	—	2	—	11
Disposals	—	(376)	—	(376)
Amortization	(65)	(172)	(139)	(425)
End of period	1,701	2,542	1,701	2,542
Valuation allowance:				
Beginning of period	63	200	46	610
Additions (recoveries)	(20)	(111)	(3)	(521)
End of period	43	89	43	89
Mortgage servicing rights, net	$ 1,658	$ 2,453	$ 1,658	$ 2,453

Servicing income (loss), net of amortization of servicing rights and changes in the valuation allowance, was $102 and $(177) for the three months ended June 30, 2023 and 2022, respectively, and $161 and $266 for the six months ended June 30, 2023 and 2022, respectively.

The fair value of mortgage servicing rights was $2,002 and $2,154 at June 30, 2023 and December 31, 2022, respectively. The fair value of mortgage servicing rights is highly sensitive to changes in underlying assumptions. Changes in prepayment speed assumptions have the most significant impact on the estimate of the fair value of mortgage servicing rights. The fair value at June 30, 2023 was determined using discount rates ranging from 10.0% to 12.5%, prepayment speeds with a weighted average of 9.9% (depending on the stratification of the specific right), a weighted average life of the mortgage servicing right of 77 months and a weighted average default rate of 0.2%. The fair value at December 31, 2022 was determined using discount rates ranging from 10.0% to 12.5%, prepayment speeds with a weighted average of 10.2% (depending on the stratification of the specific right), a weighted average life of the mortgage servicing right of 77 months and a weighted average default rate of 0.2%.

Impairment is determined by stratifying the mortgage servicing rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. At June 30, 2023 and December 31, 2022, the carrying amount of certain individual groupings exceeded their fair value, resulting in write-downs to fair value. Refer to Note 15—Fair Values of Financial Instruments.

Note 7—Deposits

Time deposits, included in interest-bearing deposits, were $981,298 and $861,733 at June 30, 2023 and December 31, 2022, respectively.

Time deposits that meet or exceed the FDIC insurance limit of $250 were $287,420 and $243,861 at June 30, 2023 and December 31, 2022, respectively.

Note 8—FHLB Borrowings

FHLB Advances

At June 30, 2023 and December 31, 2022, the Company has a long-term fixed-rate advance of $50,000 with a maturity date of May 2029. The advance requires monthly interest-only payments at 1.96% per annum with the principal amount due on the maturity date and may contain a prepayment penalty if paid before maturity. The advance is callable by the FHLB in May 2024.

(dollars in thousands, except share and per share amounts)

FHLB Overdraft Line of Credit and Letters of Credit

The Company has established a short-term overdraft line of credit agreement with the FHLB, which provides for maximum borrowings of $20,000 through October 2023. The overdraft line of credit was not used during six months ended June 30, 2023 and 2022. Borrowings accrue interest at a variable-rate based on the FHLB's overnight cost of funds rate, which was 5.50% and 4.74% at June 30, 2023 and December 31, 2022, respectively. At June 30, 2023 and December 31, 2022, there were no outstanding borrowings under this agreement. The overdraft line of credit is issued for a one-year term and automatically extends for an additional one-year term unless terminated in advance of the renewal by the Company.

In 2021, the Company entered into irrevocable standby letters of credit arrangements with the FHLB totaling $11,500 to provide credit support for certain of its obligations related to its commitment to repurchase certain pools of Advantage Loan Program loans. An irrevocable standby letter of credit of $7,500 had a 16-month term and expired in July 2022. An irrevocable standby letter of credit of $4,000 has a 36-month term and expires in July 2024. This letter of credit was reduced to $2,000 during the second quarter of 2022; thereby, the Company has total available letters of credit of $2,000 at June 30, 2023 and December 31, 2022, respectively. There were no borrowings outstanding on these standby letters of credit during the six months ended June 30, 2023 and 2022.

The long-term fixed-rate advance and the overdraft line of credit are collateralized by certain investment securities and loans. Based on this collateral and holdings of FHLB stock, the Company had additional borrowing capacity with the FHLB of $379,673 at June 30, 2023. Refer to Note 4—Investment Securities for further information on securities pledged and Note 5—Loans for further information on loans pledged.

Other Borrowings

The Company has available unsecured credit lines with other banks totaling $80,000 at June 30, 2023 and December 31, 2022. There were no borrowings under these unsecured credit lines during the six months ended June 30, 2023 and 2022.

In addition, as a result of the recent bank failures, the FRB has made available to banks a new borrowing facility under the Bank Term Funding Program. This program allows for the Company to borrow with qualifying collateral, which includes the majority of its investment securities, except the non-Agency collateralized mortgage obligations and those allowable investments pledged with FHLB, valued at par. Advances under the program may have a term of up to one year with the interest rate fixed at the time the advance is taken and there is no prepayment penalty. At June 30, 2023, the Company pledged certain allowable investments, and based on the collateral, the Company has unused borrowing capacity of $65,000. The Company had no advances outstanding under this program. The program expires on March 11, 2024. Refer to Note 4—Investment Securities for further information on securities pledged.

Note 9—Subordinated Notes, net

The Company's 7% Fixed to Floating Subordinated Notes, due April 15, 2026 (the "Subordinated Notes") were as follows:

	June 30, 2023	December 31, 2022
Subordinated Notes	$ 65,000	$ 65,000
Unamortized note premium	234	271
Total	$ 65,234	$ 65,271

The Subordinated Notes accrue interest at a variable interest rate based on the three-month London Interbank Offered Rate ("LIBOR") rate plus a margin of 5.82%, payable quarterly in arrears. The interest rate was 11.08% and 9.90% at June 30, 2023 and December 31, 2022, respectively. Note premium costs are amortized over the contractual term of the Subordinated Notes into interest expense using the effective interest method. Interest expense on these Subordinated Notes was $1,791 and $1,090 for the three months ended June 30, 2023 and 2022, respectively, and $3,484 and $2,054 for the six months ended June 30, 2023 and 2022, respectively.

The Company may redeem the Subordinated Notes, in whole or in part, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued interest. The Subordinated Notes are not subject to redemption by the noteholders. On June 15, 2023, the Company provided notice to the holders of the Subordinated Notes that it would redeem all of the outstanding Subordinated Notes on July 15, 2023. Refer to Note 18—Subsequent Events.

The Subordinated Notes are unsecured obligations and are subordinated in right of payment to all existing and future indebtedness, deposits and other liabilities of the Company's current and future subsidiaries, including the Bank's deposits as well as the Company's subsidiaries' liabilities to general creditors and liabilities arising during the ordinary course of business. Prior to January 1, 2023, the Subordinated Notes were included in Tier 2 capital for the Company as permitted by applicable regulatory guidelines and interpretations. On January 1, 2023, the Company and the Bank elected to use the Community Bank Leverage Ratio ("CBLR") framework for compliance with capital adequacy requirements and such framework does not require a computation involving Tier 2 capital. Refer to Note 12—Regulatory Capital Requirements. As long as the Subordinated Notes were outstanding, the Company was permitted to pay dividends if prior to such dividends, the Bank was considered well capitalized, as defined by regulatory guidelines.

The Company currently may not issue new debt without the prior approval of the FRB.

Note 10—Shareholders' Equity

In April 2023, the Company issued and contributed 184,928 shares of common stock to fund the matching contribution made under the Bank's defined contribution retirement plan. The contribution amount of $1,028 was valued using the closing market price of the stock on the date contributed or $5.56 per share.

In April 2022, the Company issued and contributed 160,978 shares of common stock to fund the matching contribution made under the Bank's defined contribution retirement plan. The contribution amount of $1,138 was valued using the closing market price of the stock on the date contributed or $7.07 per share.

Note 11—Stock-based Compensation

The board of directors established the 2020 Omnibus Equity Incentive Plan (the "2020 Plan"), which was approved by the shareholders in December 2020. The 2020 Plan provides for the grant of up to 3,979,661 shares of common stock for stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares for issuance to employees, consultants and the board of directors of the Company, of which 2,299,858 shares were available for future grants. The stock-based awards are issued at no less than the market price on the date the awards are granted.

Previously, the board of directors had established a 2017 Omnibus Equity Incentive Plan (the "2017 Plan") which was approved by the shareholders. The 2017 Plan initially provided for the grant of up to 4,237,100 shares of common stock for stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards for issuance to employees, consultants and the board of directors of the Company. The stock-based awards were issued at no less than the market price on the date the awards were granted. Due to the adoption of the 2020 Plan, no further grants will be issued under the 2017 Plan.

Stock Options

Stock option awards are granted with an exercise price equal to the market price of the Company's common stock on the date of grant. The stock option awards vest one-third per year over three years after the date of grant. All stock option awards have a maximum term of ten years. No stock option awards were granted during the six months ended June 30, 2023 and 2022.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

A summary of the Company's stock option activity as of and for the six months ended June 30, 2023 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2023	349,545	$ 5.19	7.17	$ 627
Granted	—			
Exercised	—			
Forfeited/expired	(6,000)	13.73		
Outstanding at June 30, 2023	343,545	$ 5.04	6.71	$ 441
Exercisable at June 30, 2023	343,545	$ 5.04	6.71	$ 441

The Company recorded stock-based compensation expense associated with stock options of $2 for the three months ended June 30, 2022, and $1 and $(11) for the six months ended June 30, 2023 and 2022, respectively.

Restricted Stock Awards

Restricted stock awards are issued to independent directors and certain key employees. The restricted stock awards generally vest one-third per year over three years after the date of grant, unless the Compensation Committee determines to establish a different vesting schedule for specific grants. In particular, in the three months ended June 30, 2023, the Company granted its chief executive officer a restricted stock award that vests in one-third increments every six months over an eighteen-month period and granted other executive officers restricted stock awards that vest in one-third increments on the third, fourth and fifth anniversary of the date of grant. The value of a restricted stock award is based on the market value of the Company's common stock at the date of grant reduced by the present value of dividends per share expected to be paid during the period the shares are not vested. Upon a change in control, as defined in the 2017 Plan and 2020 Plan, the outstanding restricted stock awards will immediately vest.

During the six months ended June 30, 2023, the board of directors approved the issuance of 1,195,838 shares of restricted stock, of which 60,000 were awarded to independent directors with a weighted average grant-date fair value of $6.09 and 1,135,838 shares were awarded to key employees with a weighted average grant-date fair value of $5.08. During the six months ended June 30, 2022, the board of directors approved the issuance of 230,427 shares of restricted stock, of which 45,000 shares were awarded to independent directors with a weighted average grant-date fair value of $5.75 and 185,427 shares were awarded to key employees with a weighted average grant-date fair value of $6.77.

During the six months ended June 30, 2023 and 2022, the Company withheld 40,992 shares and 29,728 shares of common stock, respectively, representing a portion of the restricted stock awards that vested during the period in order to satisfy certain related employee tax withholding liabilities of $233 and $196, respectively, associated with vesting. These withheld shares are treated the same as repurchased shares for accounting purposes.

A summary of the restricted stock awards activity for the six months ended June 30, 2023 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2023	390,125	$ 6.17
Granted	1,195,838	5.15
Vested	(149,567)	6.33
Forfeited	(53,759)	6.18
Nonvested at June 30, 2023	1,382,637	$ 5.27

The fair value of the award is recorded as compensation expense on a straight-line basis over the vesting period. The Company recorded stock-based compensation expense associated with restricted stock awards of $350 and $237 for the three months ended June 30, 2023 and 2022, respectively, and $522 and $396 for the six months ended June 30, 2023 and 2022, respectively. At June 30, 2023, there was $6,874 of total unrecognized compensation cost related to the nonvested stock granted which is expected to be recognized over a weighted-average period of 2.4 years. The total fair value of shares vested during the six months ended June 30, 2023 and 2022 was $863 and $655, respectively.

Note 12—Regulatory Capital Requirements

The Bank is subject to the capital adequacy requirements of the OCC. The Company, as a thrift holding company, generally is subject to the capital adequacy requirements of the Federal Reserve. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Prompt corrective action regulations provide five classifications for depository institutions like the Bank, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors, and the regulators, in their discretion, can require the Company to lower classifications in certain cases. Failure to meet minimum capital requirements can initiate regulatory action that could have a direct material effect on the Company's business, financial condition and results of operations.

The federal banking agencies' regulations provide for an optional simplified measure of capital adequacy for qualifying community banking organizations (that is, the "CBLR" framework), as implemented pursuant to the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018. The CBLR framework is designed to reduce the burden of the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. In order to qualify for the CBLR framework, a community banking organization must have (i) a Tier 1 leverage ratio of greater than 9.0%, (ii) less than $10 billion in total consolidated assets, and (iii) limited amounts of off-balance-sheet exposure and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the capital ratio requirements for the "well capitalized" capital category under applicable prompt corrective action regulations and will not be required to report or calculate risk-based capital under generally applicable capital adequacy requirements. Failure to meet the qualifying criteria within the grace period of two reporting periods, or to maintain a leverage ratio of 8.0% or greater, would require the institution to comply with the generally applicable capital adequacy requirements. An eligible banking organization can opt out of the CBLR framework and revert to compliance with general capital adequacy requirements and capital measurements under prompt corrective action regulations without restriction.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

The Company and the Bank have determined the organization is a qualifying community banking organization and has elected to measure capital adequacy under the CBLR framework, effective as of January 1, 2023. Management believes as of June 30, 2023, the Company and the Bank meet all capital adequacy requirements to which they are subject. The following tables present the consolidated Company's and the Bank's actual and minimum required capital amounts and ratios at June 30, 2023 and December 31, 2022:

	Actual		To be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
June 30, 2023				
Tier 1 (core) capital to average total assets (leverage ratio)				
Consolidated	$ 335,924	13.44 %	$ 224,950	9.00 %
Bank	322,532	12.91 %	224,881	9.00 %

	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Total adjusted capital to risk-weighted assets						
Consolidated	$ 390,591	25.64 %	$ 121,888	8.00 %	N/A	N/A
Bank	425,159	27.93	121,795	8.00	$ 152,244	10.00 %
Tier 1 (core) capital to risk-weighted assets						
Consolidated	332,068	21.79	91,416	6.00	N/A	N/A
Bank	405,803	26.65	91,346	6.00	121,795	8.00
Common Equity Tier 1 (CET1)						
Consolidated	332,068	21.79	68,562	4.50	N/A	N/A
Bank	405,803	26.65	68,510	4.50	98,959	6.50
Tier 1 (core) capital to average total assets (leverage ratio)						
Consolidated	332,068	13.54	98,073	4.00	N/A	N/A
Bank	405,803	16.56	98,032	4.00	122,540	5.00

(dollars in thousands, except share and per share amounts)

Dividend Restrictions

As noted above, federal banking regulations require the Bank to maintain certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to its shareholders. The holding company's principal source of funds for dividend payments is dividends received from the Bank. Regulatory approval is required if (i) the total capital distributions for the applicable calendar year exceed the sum of the Bank's net income for that year to date plus the Bank's retained net income for the preceding two years or (ii) the Bank would not be at least "adequately capitalized" following the distribution. In addition, the Company currently is required to obtain the prior approval of the FRB in order to pay dividends to the Company's shareholders. Refer to Note 17—Commitments and Contingencies.

The Qualified Thrift Lender ("QTL") test requires that a minimum of 65% of assets be maintained in qualified thrift investments, including mortgage loans, housing- and real estate-related finance and other specified areas. If the QTL test is not met, limits are placed on growth, branching, new investments, FHLB advances and dividends, or the Bank must convert to a commercial bank charter. Management believes that the QTL test has been met. Refer to Note 18—Subsequent Events for further information regarding the Company's application to operate as a "covered savings association."

Note 13—Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income per common share further includes any common shares available to be issued upon the exercise of outstanding stock options and restricted stock awards if such inclusions would be dilutive. The Company determines the potentially dilutive common shares using the treasury stock method. In periods of a net loss, basic and diluted per share information are the same.

The following table presents the computation of income (loss) per share, basic and diluted:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net income (loss)	$ 2,539	$ (2,197)	$ 2,036	$ 3,063
Denominator:				
Weighted average common shares outstanding, basic	50,672,461	50,386,856	50,559,092	50,289,612
Weighted average effect of potentially dilutive common shares:				
Stock options	71,580	—	86,368	112,422
Restricted stock	34,172	—	60,538	94,453
Weighted average common shares outstanding, diluted	50,778,213	50,386,856	50,705,998	50,496,487
Income (loss) per share, basic and diluted	$ 0.05	$ (0.04)	$ 0.04	$ 0.06

The weighted average effect of certain stock options and nonvested restricted stock that were excluded from the computation of weighted average diluted shares outstanding, as inclusion would be anti-dilutive, are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Stock options	45,457	344,506	47,490	49,545
Restricted stock	530,630	418,325	201,488	59,074
Total	576,087	762,831	248,978	108,619

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Note 14—Employee Benefit Plans

In May 2022, the Bank surrendered a large split-dollar life program and a few smaller company-owned life insurance policies related to former executives and a controlling shareholder with a cash surrender value of $24,877. The increase in cash surrender value of the policies of $13,142 over the duration of the ownership of the policies has moved from non-taxable income to taxable income, resulting in a $3,614 increase in income tax expense for the three and six months ended June 30, 2022. Additional taxes of $1,314 relating to this surrender are included in other expense within non-interest expense during the three and six months ended June 30, 2022.

In connection with the surrender, the Bank also cancelled certain deferred compensation and the split dollar life insurance agreement with its controlling shareholder which resulted in the reversal of the related liabilities of $4,514 which are included as a reduction in salaries and employee benefits expense for the three and six months ended June 30, 2022.

Note 15—Fair Values of Financial Instruments

Financial instruments include assets carried at fair value, as well as certain assets and liabilities carried at cost or amortized cost but disclosed at fair value in these condensed consolidated financial statements. Fair value is defined as the exit price, the price that would be received for an asset or paid to transfer a liability in the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. The inputs to valuation techniques used to measure fair value are prioritized into a three-level hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following methods and significant assumptions are used to estimate fair value:

Investment Securities

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar investment securities (Level 2). For investment securities where quoted prices or market prices of similar investment securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The fair value of the collateralized debt obligations, which are categorized as Level 3, is obtained from third-party pricing information. It is determined by calculating discounted cash flows that include spreads that adjust for credit risk and illiquidity. The Company also performs an internal analysis that considers the structure and term of the collateralized debt obligations and the financial condition of the underlying issuers to corroborate the information used from the independent third party.

Loans Held for Sale

Loans held for sale are carried at the lower of amortized cost or fair value. Loans held for sale may be carried at fair value on a nonrecurring basis when fair value is less than cost. The fair value is based on outstanding commitments from investors or quoted prices for loans with similar characteristics (Level 2).

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Mortgage Servicing Rights

Fair value of mortgage servicing rights is initially determined at the individual grouping level based on an internal valuation model that calculates the present value of estimated future net servicing income. On a quarterly basis, mortgage servicing rights are evaluated for impairment based upon third-party valuations obtained. As disclosed in Note 6—Mortgage Servicing Rights, net, the valuation model utilizes interest rate, prepayment speed and default rate assumptions that market participants would use in estimating future net servicing income (Level 3).

Assets Measured at Fair Value on a Recurring Basis

The table below presents the assets measured at fair value on a recurring basis categorized by the level of inputs used in the valuation of each asset at June 30, 2023 and December 31, 2022:

		Fair Value Measurements at June 30, 2023		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Available for sale debt securities:				
U.S. Treasury and Agency securities	$ 170,072	$ 118,086	$ 51,986	$ —
Mortgage-backed securities	34,510	—	34,510	—
Collateralized mortgage obligations	129,782	—	129,782	—
Collateralized debt obligations	144	—	—	144
Equity securities	4,394	4,394	—	—

		Fair Value Measurements at December 31, 2022		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Available for sale debt securities:				
U.S. Treasury and Agency securities	$ 168,437	$ 116,355	$ 52,082	$ —
Mortgage-backed securities	36,733	—	36,733	—
Collateralized mortgage obligations	138,241	—	138,241	—
Collateralized debt obligations	147	—	—	147
Equity securities	4,396	4,396	—	—

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2023 and 2022:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Collateralized Debt Obligations	
	Six Months Ended June 30,	
	2023	2022
Balance of recurring Level 3 assets at beginning of period	$ 147	$ 203
Total gains or losses (realized/unrealized):		
Included in other comprehensive income (loss)	—	3
Principal maturities/settlements	(3)	(53)
Balance of recurring Level 3 assets at end of period	$ 144	$ 153

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Assets Measured at Fair Value on a Nonrecurring Basis

From time to time, the Company may be required to measure certain other assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. These adjustments to fair value usually result from the application of lower of cost or fair value accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis that were recorded in the condensed consolidated balance sheets at June 30, 2023 and December 31, 2022, the following table provides the level of valuation assumptions used to determine each adjustment and the related carrying value:

	Fair Value Measurements at June 30, 2023			
	Fair Value	Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage servicing rights	$ 333	$ —	$ —	$ 333

	Fair Value Measurements at December 31, 2022			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage servicing rights	$ 391	$ —	$ —	$ 391

The following tables present quantitative information about Level 3 fair value measurements for assets measured at fair value on a nonrecurring basis at June 30, 2023 and December 31, 2022:

	Quantitative Information about Level 3 Fair Value Measurements at June 30, 2023			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average) (1)
Mortgage servicing rights	$ 333	Discounted cash flow	Discount rate	10.0% - 12.5% (12.2%)
			Prepayment speed	7.5% - 22.7% (19.1%)
			Default rate	0.1%-0.2% (0.2%)

	Quantitative Information about Level 3 Fair Value Measurements at December 31, 2022			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average) (1)
Mortgage servicing rights	$ 391	Discounted cash flow	Discount rate	10.0% - 12.5% (12.2%)
			Prepayment speed	7.5% - 22.4% (19.0%)
			Default rate	0.1% - 0.2% (0.2%)

(1) The range and weighted average for an asset category consisting of a single investment represents the significant unobservable input used in the fair value of the investment.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments not carried at fair value at June 30, 2023 and December 31, 2022, are as follows:

			Fair Value Measurements at June 30, 2023		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and due from banks	$ 655,391	$ 655,391	$ 655,391	$ —	$ —
Interest-bearing time deposits with other banks	934	934	934	—	—
Loans, net	1,449,709	1,403,677	—	—	1,403,677
Financial Liabilities					
Time deposits	981,298	984,901	—	984,901	—
Federal Home Loan Bank borrowings	50,000	48,595	—	48,595	—
Subordinated notes, net	65,234	65,234	—	65,234	—

			Fair Value Measurements at December 31, 2022		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and due from banks	$ 379,798	$ 379,798	$ 379,798	$ —	$ —
Interest-bearing time deposits with other banks	934	934	934	—	—
Loans held for sale	7,725	7,833	—	7,833	—
Loans, net	1,613,385	1,516,771	—	—	1,516,771
Financial Liabilities					
Time deposits	861,733	855,566	—	855,566	—
Federal Home Loan Bank borrowings	50,000	48,360	—	48,360	—
Subordinated notes, net	65,271	65,355	—	65,355	—

Note 16—Related Party Transactions

The Company subleased certain office space to entities owned by the Company’s controlling shareholders. Amounts received under such subleases totaled $112 for the six months ended June 30, 2022. The sublease agreements ended March 31, 2022.

Note 17—Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit, such as loan commitments and unused credit lines, and standby letters of credit, which are not reflected in the condensed consolidated financial statements.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

The Company adopted ASU 2016-13, effective January 1, 2023, which requires the Company to estimate expected credit losses for off-balance sheet credit exposures which are unconditionally cancellable. The Company maintains an estimated liability for unfunded commitments, primarily related to commitments to extend credit, on the condensed consolidated balance sheet. The liability for unfunded commitments is reduced in the period in which the off-balance sheet financial instruments expire, loan funding occurs or is otherwise settled. The following presents the activity in the liability for unfunded commitments for the six months ended June 30, 2023:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Other Consumer	Total
Balance at the beginning of the period	$ —	$ —	$ —	$ —	$ —	$ —
Adoption of ASU 2016-13	53	125	398	3	—	579
Increase (decrease) in provision for (recovery of) credit losses	(44)	38	(191)	(1)	—	(198)
Total ending balance	$ 9	$ 163	$ 207	$ 2	$ —	$ 381

Unfunded Commitments to Extend Credit

A commitment to extend credit, such as a loan commitment, credit line and overdraft protection, is a legally binding agreement to lend funds to a customer, usually at a stated interest rate and for a specific purpose. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Company may experience is expected to be lower than the contractual amount of commitments to extend credit because a significant portion of those commitments are expected to expire without being used. Certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Company is required to fund the commitment. The Company uses the same credit policies in making commitments to extend credit as it does in making loans.

The commitments outstanding to make loans include primarily residential real estate loans that are made for a period of 90 days or less. At June 30, 2023, there were no outstanding commitments to make loans as the Bank's residential lending program has been suspended while the Company performs an evaluation of its alternatives for new products and services.

Unused Lines of Credit

The Company also issues credit lines to meet customer financing needs. At June 30, 2023, the unused lines of credit include residential second mortgages of $10,813, construction loans of $4,844 and commercial and industrial loans of $972, totaling $16,629. These variable-rate unused lines of credit commitments have interest rates ranging from 4.72% to 10.63% at June 30, 2023 with maturities ranging from 2 months to 22 years.

Standby Letters of Credit

Standby letters of credit are issued on behalf of customers in connection with construction contracts between the customers and third parties. Under standby letters of credit, the Company assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The credit risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. The maximum amount of potential future payments guaranteed by the Company is limited to the contractual amount of these letters. Collateral may be obtained at exercise of the commitment. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts)

The following is a summary of the total amount of unfunded commitments to extend credit and standby letters of credit outstanding at June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Commitments to make loans	$ —	$ —
Unused lines of credit	16,629	20,865
Standby letters of credit	24	24

Legal Proceedings

The Company and its subsidiaries may be subject to legal actions and claims arising from contracts or other matters from time to time in the ordinary course of business. Management is not aware of any pending or threatened legal proceedings, except as described below, that are considered other than routine legal proceedings. The Company believes that the ultimate disposition or resolution of its routine legal proceedings, in the aggregate, are immaterial to its financial position, results of operations or liquidity.

On March 15, 2023, the Company entered into a Plea Agreement with the U.S. Department of Justice (the "DOJ"), resolving the DOJ's investigation focused on the Bank's Advantage Loan Program and related issues, including residential lending practices and public disclosures about that program contained in the Company's filings with the SEC. On July 19, 2023, the United States District Court for the Eastern District of Michigan approved the Plea Agreement. Under the Plea Agreement, the Company pleaded guilty to one count of securities fraud primarily relating to disclosures with respect to the Advantage Loan Program contained in the Company's 2017 IPO Registration Statement and its immediately following Annual Reports on Form 10-K filed in March 2018 and March 2019. Consistent with the Plea Agreement, the sentence issued by the court requires the Company to pay $27,239 in restitution for the benefit of non-insider victim shareholders; further enhance its compliance program and internal controls with respect to securities law compliance; and provide periodic reports to the DOJ with respect to compliance matters. The restitution amount will be paid by the Company in the third quarter of 2023 and will be administered by a special master to be appointed by the court. No criminal fine was imposed. The Company's obligations under the Plea Agreement are generally effective for three years. This resolution releases the Company, as well as the Bank, from further prosecution for securities fraud and underlying mortgage fraud in the Advantage Loan Program.

In addition, on June 20, 2023, the Company received a letter from the Division of Enforcement of the SEC informing the Company that the Division of Enforcement had concluded its investigation of the Company and does not intend to recommend an enforcement action by the SEC against the Company. As previously disclosed, the Company understood that the SEC's investigation related to accounting, financial reporting and disclosure matters, as well as its internal controls, related to its now-terminated Advantage Loan Program.

At June 30, 2023 and December 31, 2022, the Company has a liability for contingent losses of $27,239 for the outcome of the pending investigations which is recorded in accrued expenses and other liabilities in the condensed consolidated balance sheets.

The Bank has incurred and expects to continue to incur significant costs in connection with its ongoing cooperation with the government investigations of certain individuals and the reimbursement of third parties for the legal costs pursuant to requests for indemnification and advancement of expenses, which are reflected in the Company's condensed consolidated statements of operations for the six months ended June 30, 2023 and 2022.

Mortgage Repurchase Liability

The Company has previously sold portfolio loans originated under the Advantage Loan Program to private investors in the secondary market. The Company also sells conventional residential real estate loans (which excludes Advantage Loan Program loans) in the secondary market primarily to Fannie Mae on an ongoing basis. In connection with these loans sold, the Company makes customary representations and warranties about various characteristics of each loan. The Company may be required pursuant to the terms of the applicable mortgage loan purchase and sale agreements to repurchase any previously sold loan or indemnify (make whole) the investor for which the representation or warranty of the Company proves to be inaccurate, incomplete or misleading. In the event of a repurchase, the Company is typically required to pay the unpaid principal balance, the proportionate premium received when selling the loan and certain expenses. As a result, the Company may incur a loss with respect to each repurchased loan.

(dollars in thousands, except share and per share amounts)

To avoid the uncertainty of audits and inquiries by third-party investors in the Advantage Loan Program, beginning at the end of the second quarter of 2020, the Company commenced making offers to each of those investors to repurchase 100% of the previously sold Advantage Loan Program loans. These loans were previously sold to third-party investors with servicing of the loan retained. Losses expected to be incurred upon the repurchase of such loans were reflected in the mortgage repurchase liability.

Pursuant to the existing agreements with such investors, the Company also agreed to repurchase additional pools of Advantage Loan Program loans at the predetermined repurchase prices as stated in the agreements. At June 30, 2023, there was an outstanding agreement to repurchase an additional pool of Advantage Loan Program loans with an unpaid principal balance of $19,254 that extends to July 2025, with the final decision to effect any such repurchase as determined by the applicable investor.

At June 30, 2023 and December 31, 2022, the mortgage repurchase liability was $870 and $809, respectively, which is included in accrued expenses and other liabilities in the condensed consolidated balance sheets. The unpaid principal balance of residential real estate loans sold that were subject to potential repurchase obligations in the event of breach of representations and warranties totaled $74,840 and $112,542 at June 30, 2023 and December 31, 2022, respectively, including Advantage Loan Program loans totaling $37,391 and $43,274 at June 30, 2023 and December 31, 2022, respectively.

Activity in the mortgage repurchase liability was as follows:

	Six Months Ended June 30,	
	2023	**2022**
Balance, beginning of period	$ 809	$ 2,954
Net provision (recovery)	61	(525)
Loss on loan repurchases	—	(622)
Balance, end of the period	$ 870	$ 1,807

Note 18—Subsequent Events

Subordinated Notes

On July 15, 2023, the Company redeemed its outstanding Subordinated Notes at a redemption price equal to 100% of the outstanding principal amount plus accrued interest, for a total cash payment of $66,821. The Company recorded a gain on the extinguishment of the Subordinated Notes equal to the remaining unamortized note premium.

Election to Operate as a "Covered Savings Association"

After June 30, 2023, the Company submitted the requisite regulatory filings for the Bank to operate as a "covered savings association" under the Home Owners' Loan Act, as amended by the Economic Growth, Regulatory Relief and Consumer Protection Act, which would allow the Bank to operate as a commercial bank without being subject to the QTL test. Under the QTL test, a savings institution is required to maintain at least 65% of its portfolio assets in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least nine months out of each 12-month period. The Company currently anticipates that this election will be effective before December 31, 2023. As part of this election, the Bank is required to become a member of the Federal Reserve System and to purchase $9,001 of capital stock of the Federal Reserve Bank of Chicago. In addition, as a company that controls a covered savings association, the Company generally would be treated as a bank holding company. The change in regulatory treatment to a "covered savings association" is not expected to have a material impact on the Company's financial position or results of operations; however, the election is expected to allow the Bank to continue to shift away from its historical reliance on residential mortgage lending as its primary loan product.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and related notes included in our 2022 Form 10-K.

Unless we state otherwise or the context otherwise requires, references in this Quarterly Report on Form 10-Q to "Sterling," "we," "our," "us" or "the Company" refer to Sterling Bancorp, Inc., a Michigan corporation, and its subsidiaries, including Sterling Bank and Trust, F.S.B., which we sometimes refer to as "Sterling Bank," "the Bank" or "our Bank."

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, "forward-looking statements" regarding the Company's plans, expectations, thoughts, beliefs, estimates, goals and outlook for the future. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance, including any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "attribute," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "goal," "target," "outlook," "aim," "would," "annualized" and "perspective," or the negative versions of those words or other comparable words or phrases of a future or forward-looking nature, though the absence of these words does not mean a statement is not forward-looking. All statements other than statements of historical facts, including but not limited to statements regarding, the economy and financial markets, government investigations, credit quality, the regulatory scheme governing our industry, competition in our industry, interest rates, our liquidity, our business and our governance, are forward-looking statements. We have based the forward-looking statements in this Quarterly Report primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy and financial needs. These forward-looking statements are not historical facts, and they are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. There can be no assurance that future developments will be those that have been anticipated. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements.

The risks, uncertainties and other factors detailed from time to time in our public filings, including those included in the disclosures under the headings "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2023, subsequent periodic reports and future periodic reports, could affect future results and events, causing those results and events to differ materially from those views expressed or implied in the Company's forward-looking statements. A summary of these factors is below, under the heading "Risk Factors Summary." For additional information on factors that could materially affect the forward-looking statements included in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, see the risk factors set forth under "Item 1A. Risk Factors" in our 2022 Form 10-K and our Form 10-Q for the quarter ended March 31, 2023. You should carefully consider these risk factors in evaluating these forward-looking statements. These risks are not exhaustive. Other sections of this Quarterly Report and our filings with the Securities and Exchange Commission include additional factors that could adversely impact our business and financial performance. Moreover, we operate in very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those projected in, or implied by, such forward-looking statements.

Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update, revise, correct or review any forward-looking statement, whether as a result of new information, future developments or otherwise except as required by law. New risks and uncertainties arise from time to time, and it is not possible for us to predict those events or how they may affect us. In addition, we cannot assess the impact of any particular risk, uncertainty or other factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Risk Factors Summary

The following is a summary of the material risks we are exposed to in the course of our business activities. The below summary does not contain all of the information that may be important to you, and you should read the below summary together with the more detailed discussion of risks set forth under “Part II, Item 1A. Risk Factors” and in our 2022 Form 10-K and our Form 10-Q for the quarter ended March 31, 2023, as well as under this “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Risks Related to the Advantage Loan Program

- Compliance with the Plea Agreement and the effect of the Plea Agreement on our reputation and ability to raise capital
- The costs of cooperating with ongoing governmental investigations of certain individuals
- The costs of legal proceedings, including settlements and judgments
- The effects of the termination of our Advantage Loan Program
- Potential claims for advancement and indemnification from certain directors and officers related to the governmental investigations and potential litigation against us or counterclaims by our controlling shareholder

Risks Related to the Economy and Financial Markets

- The effects of fiscal and monetary policies and regulations of the federal government and the FRB
- The disruptions to the economy and the U.S. banking system caused by recent bank failures
- Changes in the state of the general economy and the financial markets and their effects on the demand for our loan services
- The effects of fiscal challenges facing the U.S. government
- Macroeconomic and geopolitical challenges and uncertainties affecting the stability of regions and countries around the globe and the effect of changes in the economic and political relations between the U.S. and other nations

Risks Related to Credit

- The credit risks of lending activities, including changes in the levels of delinquencies and nonperforming assets and changes in the financial performance and/or economic condition of our borrowers, including the effects of continued inflation and the possibility of a recession
- Our concentration in residential real estate loans
- The geographic concentration of our loans and operations in California
- The potential insufficiency of our allowance for loan losses to cover losses in our loan portfolio

Risks Related to Our Highly Regulated Industry

- The extensive laws and regulations affecting the financial services industry, including the qualified thrift lender test, the continued effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and related rulemaking, changes in banking and securities laws and regulations and their application by our regulators and the Community Reinvestment Act and fair lending laws, including as a result of the recent bank failures
- Failure to comply with banking laws and regulations
- Enforcement priorities of the federal bank regulatory agencies

Risks Related to Competition

- Strong competition within our market areas or with respect to our products and pricing
- Our reputation as a community bank and the effects of continued negative publicity
- Our ability to keep pace with technological change and introduce new products and services
- Consumers deciding not to use banks to complete their financial transactions

Risks Related to Interest Rates

- Negative impacts of future changes in interest rates
- Uncertainty relating to the determination and discontinuation of the LIBOR

Risks Related to Liquidity

- Our ability to ensure we have adequate liquidity
- Our ability to obtain external financing on favorable terms, or at all, in the future
- The quality of our real estate loans and our ability to sell our loans to the secondary market
- Our deposit account balances that exceed FDIC insurance limits may expose the Bank to enhanced liquidity risk

Other Risks Related to Our Business

- Our ability to attract and retain key employees and other qualified personnel
- Our operational, technological and organizational infrastructure, including the effectiveness of our enterprise risk management framework at mitigating risk and loss to us
- Operational risks from a high volume of financial transactions and increased reliance on technology, including risk of loss related to cybersecurity or privacy breaches and the increased frequency and sophistication of cyberattacks
- The operational risk associated with third-party vendors and other financial institutions
- The ability of customers and counterparties to provide accurate and complete information and the soundness of third parties on which we rely
- Our employees' adherence to our internal policies and procedures

- The effects of natural disasters on us and our California borrowers and the adequacy of our business continuity and disaster recovery plans
- Environmental, social and governance matters and their effects on our reputation and the market price of our securities
- Climate change and related legislative and regulatory initiatives
- Adverse conditions internationally and their effects on our customers
- Fluctuations in securities markets, including changes to the valuation of our securities portfolio
- The reliance of our critical accounting policies and estimates, including for the allowance for credit losses, on analytical and forecasting techniques and models
- Other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services and the other risks described elsewhere herein or in the documents incorporated by reference herein and our other filings with the SEC
- We may experience increases in FDIC insurance assessments

Risks Related to Governance Matters

- The Seligman family's ability to influence our operations and control the outcome of matters submitted for shareholder approval
- Our ability to pay dividends

The foregoing risk factors should not be construed as an exhaustive list and should be read in conjunction with the cautionary statements that are included under "Cautionary Note Regarding Forward-Looking Statements" above, under "Item 1A. Risk Factors" in our 2022 Form 10-K, our Form 10-Q for the quarter ended March 31, 2023 and elsewhere in this Quarterly Report on Form 10-Q, as well as the items set forth under "Part II, Item 1A. Risk Factors."

Company Overview and Strategic Planning

We are a unitary thrift holding company headquartered in Southfield, Michigan and our primary business is the operation of our wholly owned subsidiary, Sterling Bank. Through Sterling Bank, we offer a range of loan products to the residential and commercial markets, as well as retail and business banking services. The Bank currently originates commercial real estate loans, commercial and industrial and consumer loans and provides deposit products, consisting primarily of checking, savings and term certificate accounts. The Bank also engages in mortgage banking activities and, as such, acquires, sells and services residential mortgage loans. The Bank operates through a network of 28 branches of which 26 branches are located in the San Francisco and Los Angeles, California metropolitan areas with the remaining branches located in New York, New York and Southfield, Michigan.

Historically, our largest asset class has been residential mortgage loans. This was consistent with the Bank's thrift charter and the requirement that mortgage related assets constitute at least 65% of our assets as required by the "qualified thrift lender test" under the Home Owners' Loan Act ("HOLA"). In the past twelve months, we suspended the origination of residential mortgage loans when our third-party vendor to whom we outsourced our mortgage origination function exited the business. During this time, we began to evaluate various loan products, and we accelerated our strategic planning process once we were able to resolve the outstanding government investigations that stemmed from our former Advantage Loan Program. Our planning process has resulted in us recently submitting the requisite regulatory filings to elect to be a "covered savings association" under HOLA, which will allow us to operate as a commercial bank without being subject to the qualified thrift lender test. We anticipate this election will be effective before the end of 2023.

The next phase in our strategic planning process is to have the consulting firm we engaged help us develop a comprehensive strategic plan that we expect will include the incorporation of new banking products and services in light of our expected new status as a "covered savings association." We expect this plan will also provide for the relocation of certain operational and oversight functions to, and the build-out of our presence in, California. We have not yet established fixed timelines or milestones for the completion of this process. We expect that repositioning the Bank in this fashion will take significant time and expense.

As part of the board of directors' strategic planning process, the Company has also engaged Keefe, Bruyette & Woods as a financial advisor to assist the board of directors to explore and evaluate potential strategic alternatives. Some of the possible strategic alternatives the board may consider are a sale of the Company, a merger or other business combination, a sale of all or a material portion of the Company's assets and a recapitalization.

Overview of Quarterly Performance

During the second quarter of 2023, we took further steps to reposition the Company. Key events that occurred during the quarter included the completion of the sale of nonperforming and chronically delinquent residential real estate loans held for sale, primarily consisting of Advantage Loan Program loans, with an aggregate unpaid principal balance of approximately $43.5 million. The loans sold had a carrying value of $36.2 million on the date of sale and resulted in net proceeds of $37.9 million for a gain on sale of the loans of $1.7 million. We also issued a notice of redemption in June 2023 for all $65 million of the outstanding Subordinated Notes, which redemption, including all accrued but unpaid interest, was completed in July 2023. The interest expense on the Subordinated Notes negatively impacted our net interest margin by approximately 23 basis points for the three months ended June 30, 2023. The redemption was funded in substantial part by a $65 million dividend from the Bank to the Company.

Net income was $2.5 million for the three months ended June 30, 2023 compared to a $(2.2) million loss for the three months ended June 30, 2022. This increase was primarily due to a recovery of credit losses of $2.9 million and a gain on the sale of mortgage loans of $1.7 million, which was primarily as a result of the sale of nonperforming and chronically delinquent residential real estate loans during the quarter. The increase also reflects a decline in non-interest expense as professional and other expenses declined substantially compared to the three months ended June 30, 2022. The impact of these items was partially offset by a decrease of net interest income, reflecting a further narrowing of our net interest margin during the substantially higher interest rate environment compared to a year ago, and an increase in salaries and employee benefits expense.

We also continued to improve our credit metrics during the second quarter of 2023, primarily due to the sale of nonperforming and chronically delinquent residential real estate loans. We also completed the sale of the last remaining commercial real estate loan held for sale during the second quarter of 2023. With the successful disposition of all loans held for sale, nonperforming assets decreased from $38.3 million at December 31, 2022 to $2.1 million at June 30, 2023.

Total assets increased slightly to $2.5 billion at June 30, 2023 from $2.4 billion at December 31, 2022 as our liquid assets increased from continued loan repayment activity while loan production remained at lower levels from the continued cessation of residential mortgage lending. Further, despite the market disruption from the significant bank failures earlier this year, total deposits increased slightly during the first six months of 2023.

At June 30, 2023, our regulatory capital ratios remained well above the levels required to be considered well capitalized for regulatory purposes, and continued to remain so after the completion of the redemption of the Subordinated Notes in July.

Finally, in June 2023, we received a letter from the Division of Enforcement of the SEC informing us that it did not intend to recommend an enforcement action against us, and in July 2023 we received final court approval of the Plea Agreement previously entered into with the DOJ. Along with the Consent Order entered into with the OCC in September 2022, these events have marked the end of the government investigations into the Company and the Bank with respect to the former Advantage Loan Program. We expect to continue to incur additional future costs related to selected individual defense costs and our ongoing obligations to cooperate with the government investigations with respect to individuals. See "Part II, Item 1A— Risk Factors" for further information regarding potential costs from such ongoing government investigations.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

During the six months ended June 30, 2023, there were no significant changes to our accounting policies that we believe are critical to an understanding of our financial condition and results of operations, which critical accounting policies are disclosed in our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Company’s 2022 Form 10-K, except we have updated our discussion of our accounting policy that we consider as critical for the allowance for credit losses below as a result of our adoption of ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” on January 1, 2023.

Allowance for Credit Losses

The allowance for credit losses is based on the accuracy of credit risk ratings on individual borrowers, the use of estimates and significant judgment as to the amount and timing of expected future cash flows on nonaccrual loans, significant reliance on estimated loss rates on portfolios and consideration of our evaluation of macro-economic factors and trends. While our methodology in establishing the allowance for credit losses attributes portions of the allowance for credit losses to the residential and commercial real estate, and other consumer portfolio segments, the entire allowance for credit losses is available to absorb credit losses in the total loan portfolio.

The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of held for investment loans to present the net amount expected to be collected from the loans. The allowance for credit losses is adjusted through a charge (recovery) to provision for (recovery of) credit losses. Changes in the allowance for credit losses and, therefore, in the related provision can materially affect net income. In applying the judgment and review required to determine the allowance for credit losses, management considers changes in economic conditions, customer behavior, and collateral value, among other factors. From time to time, economic factors or business decisions may affect the composition and mix of the loan portfolio, causing management to increase or decrease the allowance for credit losses. When the Company determines that all or a portion of a loan is uncollectible, the appropriate amount is written off, and the allowance for credit losses is reduced by the same amount. The Company applies judgment to determine when a loan is deemed uncollectible; however, generally a loan will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the allowance for credit losses when received.

The Company estimates the allowance for credit losses in accordance with the CECL methodology for loans measured at amortized cost. The allowance for credit losses is established based upon the Company’s current estimate of expected lifetime credit losses. Arriving at an appropriate amount of allowance for credit losses involves a high degree of judgment. The Company estimates credit losses on a collective basis for loans sharing similar risk characteristics using a quantitative model combined with an assessment of certain qualitative factors designed to address forecast risk and model risk inherent in the quantitative model output. Management’s judgment is required for the selection and application of these factors which are derived from historical loss experience as well as assumptions surrounding expected future losses and economic forecasts. Loans that no longer share similar risk characteristics with any portfolio segment are subject to individual assessment and are removed from the collectively assessed segments. Management performs periodic sensitivity and stress testing using available economic forecasts in order to evaluate the adequacy of the allowance for credit losses under varying scenarios.

The Company’s methodologies for estimating the allowance for credit losses considers available relevant information about the collectability of cash flows, including past events, current conditions, and reasonable and supportable forecasts. For additional discussion of the Company’s methodology in determining the allowance for credit losses, see Note 3 – Summary of Significant Accounting Policies, Allowance for Credit Losses - Loans to our condensed consolidated financial statements included in “Item 1. Financial Statements.”

Balance Sheet and Capital Analysis

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	At June 30, 2023		At December 31, 2022	
	Amount	%	Amount	%
	(Dollars in thousands)			
Real estate:				
Residential real estate	$ 1,214,439	82 %	$ 1,391,276	84 %
Commercial real estate	221,658	15 %	221,669	13 %
Construction	31,978	2 %	44,503	3 %
Total real estate	1,468,075	99 %	1,657,448	100 %
Commercial and industrial	17,772	1 %	1,396	— %
Other consumer	15	— %	5	— %
Total loans	1,485,862	100 %	1,658,849	100 %
Less: allowance for credit losses	(36,153)		(45,464)	
Loans, net	$ 1,449,709		$ 1,613,385	

Our loan portfolio consists primarily of residential real estate loans, which are collateralized by real estate. At June 30, 2023 and December 31, 2022, residential real estate loans accounted for 82% and 84%, respectively, of total gross loans held for investment. Most of these residential loans and other commercial loans have been made to individuals and businesses in the state of California, specifically in the San Francisco and Los Angeles metropolitan areas. As of June 30, 2023, approximately 80% of our loan portfolio was based in California with 54% and 26% in the San Francisco and Los Angeles metropolitan areas, respectively.

Total gross loans held for investment of $1.5 billion at June 30, 2023 declined $173.0 million, or 10%, from $1.7 billion at December 31, 2022. The decline in our loan portfolio from December 31, 2022 was primarily attributable to repayments on loans, which continued to outpace our loan production. In addition, the prevailing rising interest rate environment has adversely impacted the supply of residential mortgage loans in the secondary market for purchase at attractive prices. Also, contributing to the decline in loans held for investment, during the six months ended June 30, 2023, loans with an amortized cost of $41.1 million were transferred from loans held for investment to loans held for sale and sold in May 2023. On the transfer, the Company recorded a $6.5 million charge off applied against the allowance for credit losses to reflect these loans at their estimated fair value. Also, during the same period, residential real estate loans with an amortized cost of $3.9 million were transferred from loans held for sale to loans held for investment.

Our overall decline in loan production reflects a number of factors, including our decision to stop originating construction loans and the prevailing rising interest rate and inflationary environment of 2022, which practically limited the opportunities we had for meaningful loan production. Also, in May 2022, we outsourced our residential loan origination function to a third-party vendor. In November 2022, we were notified of our residential loan originator's plans to exit the business, which caused us to effectively suspend new residential loan originations. We used commercially reasonable efforts to evaluate and originate pending loan applications through February 28, 2023. We are currently performing an evaluation of our alternatives for the development of new loan products as part of a larger strategic planning process. In the meantime, we may continue to purchase residential loans from the secondary market.

Maturities and Sensitivities of Loans to Changes in Interest Rates. The Company's loan portfolio includes adjustable-rate loans, primarily tied to Prime, U.S. Treasuries and Secured Overnight Financing Rate ("SOFR"), and fixed-rate loans, for which the interest rate does not change through the life of the loan. The following table sets forth the recorded investment by interest rate type in our loan portfolio at June 30, 2023:

	Adjustable Rate					
	Prime	Treasury	SOFR	Total	Fixed Rate	Total
	(In thousands)					
Residential real estate	$ 8,814	$ 322,045	$ 864,374	$ 1,195,233	$ 19,206	$ 1,214,439
Commercial real estate	—	118,020	21,489	139,509	82,149	221,658
Construction	31,978	—	—	31,978	—	31,978
Commercial and industrial	16,549	34	—	16,583	1,189	17,772
Other consumer	—	—	—	—	15	15
Total	$ 57,341	$ 440,099	$ 885,863	$ 1,383,303	$ 102,559	$ 1,485,862
% by rate type at June 30, 2023	4 %	30 %	59 %	93 %	7 %	100 %

Across our loan portfolio, our adjustable-rate loans are typically based on a 30-year amortization schedule and generally interest rates and payments adjust annually after a one-, three-, five- or seven-year initial fixed period. Our prime-based loans, which typically are construction loans and home equity loans, adjust to a rate equal to 25 to 238 basis points above Prime and have maturities of up to 36 months. Our Treasury-based residential loans adjust to a rate based on the U.S. Treasury one- and five-year constant maturity treasury rates. Our commercial real estate loans predominately adjust based on the U.S. Treasury five-year constant maturity Treasury rate. Interest rates on our adjustable-rate SOFR-based loans adjust to a rate typically equal to 350 to 450 basis points above the one-year SOFR.

At June 30, 2023, we have transitioned all of our adjustable-rate loans in our residential loan portfolio that were LIBOR-indexed to loans that earn interest based on SOFR with a relevant spread adjustment. Refer to "Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk" relating to the discontinuance of LIBOR and the transition of our LIBOR based loans to SOFR-based rates.

The table set forth below contains the repricing dates of adjustable-rate loans included within our loan portfolio as of June 30, 2023:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Other Consumer	Total
	(In thousands)					
Amounts to adjust in:						
6 months or less	$ 415,277	$ 24,303	$ 31,978	$ 16,583	$ —	$ 488,141
After 6 months through 12 months	355,084	1,115	—	—	—	356,199
After 12 months through 24 months	103,015	52,332	—	—	—	155,347
After 24 months through 36 months	129,542	1,085	—	—	—	130,627
After 36 months through 60 months	106,383	60,674	—	—	—	167,057
After 60 months	85,932	—	—	—	—	85,932
Fixed to maturity	19,206	82,149	—	1,189	15	102,559
Total	$ 1,214,439	$ 221,658	$ 31,978	$ 17,772	$ 15	$ 1,485,862

At June 30, 2023, $121.2 million, or 9%, of our adjustable interest rate loans were at their interest rate floor.

Asset Quality

Nonperforming Assets. Nonperforming assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest and nonaccrual loans held for sale.

We generally place a loan on nonaccrual status when management believes that collection of principal or interest has become doubtful or when a loan becomes 90 days past due as to principal or interest. For nonaccrual loans, interest previously accrued but not collected is reversed and charged against income at the time a loan is placed on nonaccrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table sets forth information regarding our nonperforming assets at the dates indicated.

	At June 30, 2023	At December 31, 2022
	(Dollars in thousands)	
Nonaccrual loans[(1)(2)]:		
Residential real estate	$ 2,062	$ 33,690
Loans past due 90 days or more and still accruing interest	33	35
Other troubled debt restructurings[(3)]	—	2,637
Nonaccrual loans held for sale	—	1,942
Total nonperforming assets	$ 2,095	$ 38,304
Total loans[(1)]	$ 1,485,862	$ 1,658,849
Total assets	$ 2,532,010	$ 2,444,735
Total nonaccrual loans to total loans[(2)]	0.14 %	2.03 %
Total nonperforming assets to total assets	0.08 %	1.57 %

(1) Loans are classified as held for investment and are presented before the allowance for credit losses.
(2) Total nonaccrual loans exclude nonaccrual loans held for sale. If nonaccrual loans held for sale are included, the ratio of total nonaccrual loans to total gross loans would be 0.14% and 2.14% at June 30, 2023 and December 31, 2022, respectively.
(3) Other troubled debt restructurings at December 31, 2022 exclude those loans presented above as nonaccrual or past due 90 days or more and still accruing interest. Effective January 1, 2023, loan modifications involving borrowers experiencing financial difficulty are evaluated under the new credit loss model. There were no such loan modifications during the six months ended June 30, 2023.

At June 30, 2023, nonperforming assets totaled $2.1 million, a decrease of $36.2 million from $38.3 million at December 31, 2022. This decrease in nonperforming assets from December 31, 2022 is primarily due to nonaccrual loans of $24.4 million that were transferred to held for sale in March 2023 and subsequently sold in May 2023 and nonaccrual loans of $4.2 million that were charged off to the allowance for credit losses. The remainder of the decrease in nonaccrual loans is primarily due to loans of $3.6 million that were paid in full and loans of $5.5 million that were returned to accrual status. Partially offsetting these decreases, loans of $6.4 million were added to nonaccrual status, a portion of which were transferred to held for sale and sold in May 2023. When including nonaccrual loans held for sale, the ratio of nonaccrual loans to total gross loans decreased from 2.14% at December 31, 2022 to 0.14% at June 30, 2023.

During the three months ended June 30, 2023 and 2022, the total interest income that would have been recorded if the nonaccrual loans had been current in accordance with their original terms was $41 thousand and $0.6 million, respectively, and $49 thousand and $1.4 million for the six months ended June 30, 2023 and 2022, respectively. The Company does not record interest income on nonaccrual loans.

Delinquent Loans. The following tables set forth our loan delinquencies, including nonaccrual loans, by type and amount at the dates indicated.

	June 30, 2023			December 31, 2022		
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due
	(In thousands)					
Residential real estate	$ 12,633	$ 2,385	$ 2,095	$ 17,980	$ 5,337	$ 33,725

Total loans 90 days or more past due decreased from $33.7 million at December 31, 2022 to $2.1 million at June 30, 2023. This decrease was primarily attributable to the change in nonaccrual loans discussed in "—Nonperforming Assets" above.

Classified Loans. We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The four risk categories utilized are Pass, Special Mention, Substandard and Doubtful. Loans in the Pass category are considered to be of satisfactory quality, while the remaining three categories indicate varying levels of credit risk.

Although total loans classified as Special Mention and Substandard decreased $31.9 million from $84.8 million at December 31, 2022, commercial real estate loans classified in the Substandard category increased $18.9 million during the six months ended June 30, 2023. The commercial real estate loans downgraded to Substandard are comprised of eight loans that are performing in accordance with their terms, but for which there were concerns primarily regarding the underlying properties' debt service coverage ratios and the cash flows of the personal guarantors for the loans. Notwithstanding, we do not currently believe these loans meet the criteria to be collateral-dependent loans. See Note 5—Loans—Credit Quality to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information about our risk categories.

Loans classified as Special Mention, Substandard and Doubtful were as follows at the dates indicated:

	June 30, 2023			December 31, 2022		
	Loans Held for Investment	Loans Held for Sale	Total	Loans Held for Investment	Loans Held for Sale	Total
	(Dollars in thousands)					
Special Mention:						
Commercial real estate	$ 20,504	$ —	$ 20,504	$ 32,910	$ 1,544	$ 34,454
Construction	—	—	—	4,650	—	4,650
Total Special Mention	20,504	—	20,504	37,560	1,544	39,104
Substandard:						
Residential real estate	2,095	—	2,095	33,725	1,942	35,667
Commercial real estate	20,437	—	20,437	1,539	—	1,539
Construction	9,885	—	9,885	8,484	—	8,484
Total Substandard	32,417	—	32,417	43,748	1,942	45,690
Total	$ 52,921	$ —	$ 52,921	$ 81,308	$ 3,486	$ 84,794
Total Loans	$ 1,485,862	$ —	$ 1,485,862	$ 1,658,849	$ 7,725	$ 1,666,574
Classified assets to total loans	4 %	—	4 %	5 %	45 %	5 %

Allowance for Credit Losses

We adopted ASU 2016-13 on January 1, 2023 on a modified retrospective basis. This guidance changes the accounting for credit losses from an incurred loss model, which estimates a loss allowance based on current known and inherent losses within the loan portfolio to an expected loss model, which estimates a credit loss based on losses expected to be recorded over the lifetime of the loan portfolio. We recorded a pre-tax cumulative effect adjustment to decrease the allowance for credit losses by $1.7 million and we established a liability for unfunded commitments of $0.6 million. The decrease in the allowance for credit losses was primarily due to our construction portfolio which has short contractual maturities and was partially offset by an increase in the allowance for credit losses in both our residential real estate and commercial real estate portfolios which have longer contractual maturities.

Based on our evaluation of our available for sale debt securities, we did not record an allowance for credit losses on these securities, upon adoption. See Note 4 to our condensed consolidated financial statements included in "Item 1. Financial Statements."

See "Critical Accounting Policies and Estimates – Allowance for Credit Losses" for additional discussion of our allowance for credit losses accounting policy.

Prior to the adoption of CECL, the allowance for loan losses was maintained at levels considered adequate by management to provide for probable loan losses inherent in the loan portfolio as of the condensed consolidated balance sheet reporting dates. The allowance for loan losses was based on management's assessment of various quantitative and qualitative factors affecting the loan portfolio, including portfolio composition, net charge-offs, delinquent and nonaccrual loans, foreclosures, Bank-specific factors (e.g., staff experience, underwriting guidelines etc.), national and local business conditions, historical loss experience, an overall evaluation of the quality of the underlying collateral and other external factors. Certain qualitative components within our allowance for loan losses methodology took on increased significance in prior periods, and to a lesser extent in the most recent period, as a result of the economic impact of the COVID-19 pandemic. These qualitative components included unemployment, commercial property vacancy rates, uncertainty in property values and deterioration in the overall macro-economic environment.

The following table presents the activity in the allowance for credit losses by portfolio segment for the three and six months ended June 30, 2023:

Three Months Ended June 30, 2023	**Residential Real Estate**	**Commercial Real Estate**	**Construction**	**Commercial and Industrial**	**Other Consumer**	**Total**
			(In thousands)			
Allowance for credit losses:						
Balance at the beginning of the period	$ 20,498	$ 16,067	$ 1,994	$ 6	$ —	$ 38,565
Provision for (recovery of) for credit losses	(3,895)	566	480	35	—	(2,814)
Charge offs	—	—	—	—	—	—
Recoveries	306	95	1	—	—	402
Total ending balance	$ 16,909	$ 16,728	$ 2,475	$ 41	$ —	$ 36,153

Six Months Ended June 30, 2023	**Residential Real Estate**	**Commercial Real Estate**	**Construction**	**Commercial and Industrial**	**Other Consumer**	**Total**
			(In thousands)			
Allowance for credit losses:						
Balance at the beginning of the period	$ 27,951	$ 11,694	$ 5,781	$ 38	$ —	$ 45,464
Adoption of ASU 2016-13	865	1,151	(3,633)	(34)	—	(1,651)
Adoption of ASU 2022-02	(11)	—	391	—	—	380
Provision for (recovery of) for credit losses	(5,784)	3,783	(66)	37	—	(2,030)
Charge offs	(6,478)	—	-	—	—	(6,478)
Recoveries	366	100	2	—	—	468
Total ending balance	$ 16,909	$ 16,728	$ 2,475	$ 41	$ —	$ 36,153

The following table presents the activity in the allowance for credit losses for the three and six months ended June 30, 2022, as determined in accordance with *ASC 310, Receivables*, prior to the adoption of ASU 2016-13:

Three Months Ended June 30, 2022	**Residential Real Estate**	**Commercial Real Estate**	**Construction**	**Commercial Lines of Credit**	**Other Consumer**	**Total**
Allowance for loan losses:						
Beginning balance	$ 29,911	$ 13,709	$ 8,829	$ 6	$ —	$ 52,455
Provision for (recovery of) loan losses	(272)	1,251	(2,123)	30	5	(1,109)
Charge offs	(197)	—	—	—	—	(197)
Recoveries	540	75	2	—	—	617
Total ending balance	$ 29,982	$ 15,035	$ 6,708	$ 36	$ 5	$ 51,766

Six Months Ended June 30, 2022	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 32,202	$ 12,608	$ 11,730	$ 8	$ —	$ 56,548
Provision for (recovery of) loan losses	(2,753)	2,347	(5,025)	28	5	(5,398)
Charge offs	(197)	—	—	—	—	(197)
Recoveries	730	80	3	—	—	813
Total ending balance	$ 29,982	$ 15,035	$ 6,708	$ 36	$ 5	$ 51,766

Our allowance for credit losses at June 30, 2023 was $36.2 million, or 2.43% of total loans held for investment, compared to $44.2 million, or 2.66% (after the adoption of ASU 2016-13), of total loans held for investment, at January 1, 2023. The allowance for credit losses decreased from $44.2 million primarily due to the transfer of nonaccrual and delinquent residential real estate loans to held for sale, which resulted in a charge off of $6.5 million. The decrease in the allowance for credit losses also includes a recovery of loan losses of $2.0 million as a result of the substantial improvement in credit quality and overall decline in the residential real estate portfolio. See "Results of Operations—Provision for (Recovery of) for Credit Losses" for additional information about our provision for (recovery of) for credit losses.

Net recoveries during the three months ended June 30, 2023 and 2022 were $(0.4) million. Net charge offs during the six months ended June 30, 2023 were $6.0 million compared to net recoveries of $(0.6) million for the six months ended June 30, 2022. Net charge offs during the six months ended June 30, 2023 primarily reflects the $6.5 million in charge offs of our recorded investment of those residential loans transferred to held for sale.

The following table sets forth the allowance for credit losses allocated by loan category at the dates indicated. The allowance for credit losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance for credit losses to absorb losses in other categories.

	At June 30, 2023		At December 31, 2022	
	Allowance for Credit Losses	Percent of Loans in Each Category to Total Loans	Allowance for Credit Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Residential real estate	$ 16,909	82 %	$ 27,951	84 %
Commercial real estate	16,728	15 %	11,694	13 %
Construction	2,475	2 %	5,781	3 %
Commercial and industrial	41	1 %	38	— %
Other consumer	—	— %	—	— %
Total	$ 36,153	100 %	$ 45,464	100 %
Nonaccrual loans(1)	$ 2,062		$ 33,690	
Nonperforming loans and troubled debt restructurings(2)	$ 2,095		$ 36,362	
Total loans	$ 1,485,862		$ 1,658,849	
Allowance for credit losses to nonaccrual loans(1)	1,753 %		135 %	
Allowance for credit losses to total loans	2.43 %		2.74 %	

(1) Nonaccrual loans exclude nonaccrual loans held for sale.
(2) Nonperforming loans and troubled debt restructurings exclude nonaccrual loans and troubled debt restructurings in loans held for sale.

Collateral-Dependent Loans

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. At June 30, 2023, the Company did not have any collateral-dependent loans.

Modifications to Borrowers Experiencing Financial Difficulty

In January 2023, the Company adopted ASU 2022-02, Financial Instruments – Credit Losses (ASC 326) Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02") which eliminated the accounting guidance for troubled debt restructurings while enhancing disclosures requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. The Company adopted the provisions of ASU 2022-02 on January 1, 2023, along with its adoption of ASU 2016-13, *Financial Instruments—Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments ("2016-13")* and was applied using the modified retrospective method. On the date of adoption, the Company increased its allowance for credit losses by $0.4 million, recorded a deferred income tax impact of $0.1 million and recorded a cumulative effect adjustment of $0.3 million, net of the income tax impact of $0.1 million, to decrease the opening balance of retained earnings as of January 1, 2023, for the initial application of ASU 2022-02. The cumulative effect adjustment represents the difference between the allowance previously determined under the troubled debt restructuring model and the allowance determined under the new credit loss accounting model for existing troubled debt restructuring loans on the adoption date.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Historically, the Company has provided loan forbearances to residential borrowers when mandated and modified construction loans by providing term extensions. The Company did not have any loans held for investment made to borrowers experiencing financial difficulty that were modified during the six months ended June 30, 2023. The Company did not have any loans held for investment made to borrowers experiencing financial difficulty that were previously modified that subsequently defaulted during the six months ended June 30, 2023.

Investment Securities Portfolio

The following table sets forth the amortized cost and estimated fair value of our available for sale debt securities portfolio at the dates indicated.

	At June 30, 2023		At December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
U.S. Treasury and Agency securities	$ 176,768	$ 170,072	$ 175,878	$ 168,437
Mortgage-backed securities	38,883	34,510	41,388	36,733
Collateralized mortgage obligations	143,987	129,782	153,066	138,241
Collateralized debt obligations	155	144	157	147
Total	$ 359,793	$ 334,508	$ 370,489	$ 343,558

We decreased the size of our available for sale debt securities portfolio (on an amortized-cost basis) by $10.7 million, or 3%, from December 31, 2022 to $359.8 million at June 30, 2023. The decline in our debt securities (on an amortized cost basis) during the six months ended June 30, 2023 was primarily due to principal receipts from our collateralized mortgage obligations and mortgage-backed securities of $11.7 million. We continually evaluate our investment securities portfolio in response to established asset/liability management objectives and changing market conditions that could affect profitability and the level of interest rate risk to which we are exposed. These evaluations may cause us to change the level of funds we deploy into investment securities and change the composition of our investment securities portfolio.

For available for sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available for sale debt securities that do not meet the aforementioned criteria, we evaluate at the individual security level whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of income taxes.

We review the debt securities portfolio on a quarterly basis to determine the cause, magnitude and duration of declines in the fair value of each security. At June 30, 2023, gross unrealized losses on debt securities totaled $25.4 million. Our debt, mortgage-backed securities and the majority of the collateralized mortgage obligations are issued by the U.S. government, its agencies and government-sponsored enterprises. The Company has a long history with no credit losses from issuers of U.S. government, its agencies and government-sponsored enterprises. Also, our available for sale debt securities are explicitly or implicitly fully guaranteed by the U.S. government. As a result, management does not expect any credit losses on its available for sale debt securities. Accordingly, we have not recorded an allowance for credit losses for our available for sale debt securities at June 30, 2023.

Our equity securities consist of an investment in a qualified community reinvestment act investment fund, which is a publicly-traded mutual fund, and an investment in the common equity of Pacific Coast Banker's Bank, a thinly traded restricted stock. At June 30, 2023 and December 31, 2022, our equity securities totaled $4.6 million.

We are required to hold non-marketable equity securities, comprised of FHLB stock, as a condition of our membership in the FHLB system. Our FHLB stock is accounted for at cost, which equals par or its redemption value. At June 30, 2023 and December 31, 2022, we held $20.3 million in FHLB stock.

Deposits

Deposits are the primary source of funding for the Company. We regularly review the need to adjust our deposit offering rates on various deposit products in order to maintain a stable liquidity profile and a competitive cost of funds. We obtain funds from depositors by offering a range of deposit types, including demand, savings money market and time. The following table sets forth the composition of our deposits by account type at the dates indicated.

	At June 30, 2023	At December 31, 2022
	(In thousands)	
Noninterest-bearing deposits	$ 44,799	$ 53,041
Money market, savings and NOW	1,015,394	1,039,263
Time deposits	981,298	861,733
Total deposits	$ 2,041,491	$ 1,954,037

Total deposits were $2.0 billion as of June 30, 2023, an increase of $87.5 million, or 4%, compared to $2.0 billion at December 31, 2022. Our time deposits increased by $119.6 million, or 14%, which we believe is primarily due to our strategy to continue to offer time deposits at competitive interest rates to maintain our existing customer deposit base and help manage our liquidity. Our money market, savings and NOW deposits decreased by $23.9 million, or 2%, and our noninterest-bearing demand deposits decreased $8.2 million, or 16%, from December 31, 2022. We also experienced our existing customers shifting their deposits from money market, savings and NOW accounts to time deposits to take advantage of the higher interest rates. We had no brokered deposits at June 30, 2023 or December 31, 2022.

We continue to focus on core deposits, which we define as all deposits except for time deposits greater than $250,000 and brokered deposits. Core deposits totaled $1.8 billion, or 86% of total deposits, at June 30, 2023 compared to $1.7 billion, or 88% of total deposits, at December 31, 2022.

Total estimated uninsured deposits were approximately 24% of total deposits at June 30, 2023. The insured deposit data does not reflect an evaluation of all of the account styling distinctions that would determine the availability of deposit insurance to individual accounts based on FDIC regulations. The portion of U.S. time deposits, by account, that exceed the FDIC insurance limit of $250,000 was $102.9 million at June 30, 2023.

Borrowings

In addition to deposits, we use short-term borrowings, such as FHLB advances and drawdowns on an overdraft credit line with the FHLB, as sources of funds to meet the daily liquidity needs of our customers. Our short-term advances with the FHLB consist primarily of advances of funds for one- or two-week periods.

At June 30, 2023 and December 31, 2022, outstanding FHLB borrowings totaled $50.0 million. Our FHLB borrowings consisted of a long-term fixed rate advance with a fixed interest rate of 1.96% with a maturity date of May 2029, although the advance is callable by the FHLB in May 2024.

We had outstanding Subordinated Notes in a principal amount of $65.0 million at June 30, 2023, which had a variable interest rate equal to the three-month LIBOR rate plus a margin of 5.82%. The interest rate was 11.08% at June 30, 2023. On June 15, 2023, the Company provided notice to the holders of the Subordinated Notes that it would redeem all of the Subordinated Notes. On July 15, 2023, the Company redeemed the Subordinated Notes at a redemption price equal to 100% of the outstanding principal amount plus accrued interest for a total cash payment of $66.8 million.

At June 30, 2023, we had the ability to borrow an additional $379.7 million from the FHLB, which included an available line of credit of $20.0 million. In addition, we have standby letters of credit, totaling $2.0 million, which provide credit support for certain of our obligations related to our commitments to repurchase certain pools of Advantage Loan Program loans. We also had available credit lines with other banks totaling $80.0 million. There were no borrowings outstanding on the lines of credit with other banks.

The Company can also participate in the FRB's Bank Term Funding Program which provides an additional source of liquidity against high-quality securities. At June 30, 2023, the Company pledged certain eligible investments with a fair value of $62.6 million, which, based on this collateral, results in the Company having unused borrowing capacity of $65.0 million. The Company had no advances outstanding under this program. This program expires on March 11, 2024.

Shareholders' Equity

Total shareholders' equity was $317.7 million at June 30, 2023 compared to $312.6 million at December 31, 2022. The increase in shareholders' equity is primarily attributable to net income of $2.0 million for the six months ended June 30, 2023, $1.0 million attributable to the issuance of shares of common stock relating to the Sterling Bank & Trust 401(k) Plan company matching contribution and unrealized losses on our investment securities portfolio in accumulated other comprehensive loss that have recovered by $1.2 million since December 31, 2022.

Analysis of Results of Operations

General. The Company had net income of $2.5 million for the three months ended June 30, 2023 compared to a net loss of $(2.2) million for the three months ended June 30, 2022. Net income was $2.0 million for the six months ended June 30, 2023, a decrease of $1.1 million compared to net income of $3.1 million for the six months ended June 30, 2022.

Average Balance Sheet and Related Yields and Rates. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three and six months ended June 30, 2023 and 2022. The average balances are daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of discount accretion and net deferred loan origination costs accounted for as yield adjustments.

	As of and for the Three Months Ended June 30,						As of and for the Six Months Ended June 30,					
	2023			2022			2023			2022		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in thousands)						(Dollars in thousands)					
Interest-earning assets												
Loans[1]												
Residential real estate and other consumer	$ 1,277,408	$ 18,250	5.71 %	$ 1,554,077	$ 17,310	4.46 %	$ 1,321,858	$ 36,764	5.56 %	$ 1,607,090	$ 35,588	4.43 %
Commercial real estate	224,836	2,787	4.96 %	221,435	2,547	4.60 %	224,383	5,383	4.80 %	234,169	5,983	5.11 %
Construction	31,819	820	10.31 %	62,354	883	5.66 %	36,601	1,854	10.13 %	78,762	3,032	7.70 %
Commercial and industrial	2,255	35	6.21 %	355	6	6.76 %	1,821	51	5.60 %	352	11	6.25 %
Total loans	1,536,318	21,892	5.70 %	1,838,221	20,746	4.51 %	1,584,663	44,052	5.56 %	1,920,373	44,614	4.65 %
Securities, includes restricted stock[2]	375,094	2,666	2.84 %	396,315	1,353	1.37 %	370,744	5,122	2.76 %	373,360	2,188	1.17 %
Other interest-earning assets	541,887	7,002	5.17 %	406,740	791	0.78 %	477,186	11,809	4.95 %	429,569	1,006	0.47 %
Total interest-earning assets	2,453,299	31,560	5.15 %	2,641,276	22,890	3.47 %	2,432,593	60,983	5.01 %	2,723,302	47,808	3.51 %
Noninterest-earning assets												
Cash and due from banks	4,233			3,811			4,353			3,728		
Other assets	27,645			46,390			27,349			45,918		
Total assets	$ 2,485,177			$ 2,691,477			$ 2,464,295			$ 2,772,948		
Interest-bearing liabilities												
Money Market, Savings and NOW	$ 980,359	$ 6,270	2.57 %	$ 1,288,796	$ 756	0.24 %	$ 990,874	$ 10,884	2.22 %	$ 1,299,761	$ 1,463	0.23 %
Time deposits	969,938	7,067	2.92 %	760,017	1,260	0.66 %	935,605	12,262	2.64 %	810,620	2,883	0.72 %
Total interest-bearing deposits	1,950,297	13,337	2.74 %	2,048,813	2,016	0.39 %	1,926,479	23,146	2.42 %	2,110,381	4,346	0.42 %
FHLB borrowings	50,000	248	1.96 %	110,440	314	1.12 %	50,000	493	1.99 %	130,111	666	1.03 %
Subordinated notes, net	65,245	1,791	10.86 %	65,319	1,090	6.60 %	65,255	3,484	10.62 %	65,328	2,054	6.25 %
Total borrowings	115,245	2,039	7.00 %	175,759	1,404	3.16 %	115,255	3,977	6.86 %	195,439	2,720	2.77 %
Total interest-bearing liabilities	2,065,542	15,376	2.99 %	2,224,572	3,420	0.62 %	2,041,734	27,123	2.68 %	2,305,820	7,066	0.62 %
Noninterest-bearing liabilities												
Demand deposits	44,005			72,496			47,127			68,331		
Other liabilities	61,487			52,075			61,892			54,752		
Shareholders' equity	314,143			342,334			313,542			344,045		
Total liabilities and shareholders' equity	$ 2,485,177			$ 2,691,477			$ 2,464,295			$ 2,772,948		
Net interest income and spread[2]		$ 16,184	2.16 %		$ 19,470	2.85 %		$ 33,860	2.33 %		$ 40,742	2.89 %
Net interest margin[2]			2.64 %			2.95 %			2.78 %			2.99 %

(1) Nonaccrual loans are included in the respective average loan balances. Income, if any, on such loans is recognized on a cash basis.
(2) Interest income does not include taxable equivalence adjustments.

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the periods indicated. The table distinguishes between: (1) changes attributable to volume (changes in volume multiplied by the prior period's rate), (2) changes attributable to rate (change in rate multiplied by the prior period's volume) and (3) total increase (decrease) (the sum of the previous columns). Changes attributable to both volume and rate are allocated ratably between the volume and rate categories.

	Three Months Ended June 30, 2023 vs. 2022			Six Months Ended June 30, 2023 vs. 2022		
	Increase (Decrease) due to		Net Increase	Increase (Decrease) due to		Net Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Change in interest income:						
Loans						
Residential real estate and other consumer	$ (3,408)	$ 4,348	$ 940	$ (6,969)	$ 8,145	$ 1,176
Commercial real estate	39	201	240	(245)	(355)	(600)
Construction	(565)	502	(63)	(1,945)	767	(1,178)
Commercial and industrial	29	—	29	41	(1)	40
Total loans	(3,905)	5,051	1,146	(9,118)	8,556	(562)
Securities, includes restricted stock	(76)	1,389	1,313	(15)	2,949	2,934
Other interest-earning assets	347	5,864	6,211	124	10,679	10,803
Total change in interest income	(3,634)	12,304	8,670	(9,009)	22,184	13,175
Change in interest expense:						
Money Markets, Savings and NOW	(228)	5,742	5,514	(439)	9,860	9,421
Time deposits	433	5,374	5,807	513	8,866	9,379
Total interest-bearing deposits	205	11,116	11,321	74	18,726	18,800
FHLB borrowings	(223)	157	(66)	(566)	393	(173)
Subordinated notes, net	(1)	702	701	(2)	1,432	1,430
Total change in interest expense	(19)	11,975	11,956	(494)	20,551	20,057
Change in net interest income	$ (3,615)	$ 329	$ (3,286)	$ (8,515)	$ 1,633	$ (6,882)

Net Interest Income. Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned or paid. Our net interest income is significantly impacted by changes in interest rates and market yield curves and their related impact on cash flows.

Three Months Ended June 30, 2023 Compared to the Three Months Ended June 30, 2022

Net interest income was $16.2 million for the three months ended June 30, 2023, a decrease of $3.3 million, or 17%, from $19.5 million for the three months ended June 30, 2022. The decrease in net interest income primarily reflects interest expense, principally on deposits, increasing more than interest income during the rising rate environment of the past twelve months. The rising rate environment reflects the Federal Open Market Committee increasing the target range for the federal funds rate from 1.50% - 1.75% in June 2022 to 5.00% - 5.25% in June 2023. In addition, the decline in net interest income reflects the continued reduction of our balance sheet.

Interest income was $31.6 million for the three months ended June 30, 2023, an increase of $8.7 million, or 38%, from $22.9 million for the three months ended June 30, 2022. The increase in interest income was primarily due to interest income earned on the average balances of our other interest-earning assets and residential real estate loans as these portfolios repriced upward significantly in the rising rate environment of the past twelve months. Other interest-earning assets, which are comprised primarily of interest-bearing cash deposits, had an average yield of 5.17% for the three months ended June 30, 2023 compared to 0.78% for the three months ended June 30, 2022. These assets benefitted the most from the rising rate environment as correspondent banks and the Federal Reserve increased their deposit rate and overnight funding rates, respectively, by over 350 basis points.

Also contributing to the increase in interest income was interest income earned on our loan portfolio. Interest income on our adjustable-rate residential real estate mortgages was favorably impacted as the average yield increased 125 basis points from the three months ended June 30, 2022 as these mortgages repriced at higher rates due to rising interest rates, though such increase was partially offset by the decline in the average balance of our loan portfolio. The average balance of our loan portfolio declined $301.9 million, or 16%, from $1.8 billion for the three months ended June 30, 2022. The decrease in our average balance of loans is primarily attributable to repayments on loans, the suspension of our origination of residential real estate loans and the sale of all loans held for sale.

Although the average balance of our investment securities decreased by 5%, these assets had an average yield of 2.84% for the three months ended June 30, 2023 compared to 1.37% for the three months ended June 30, 2022. The average balance of our investment securities was $375.1 million for the three months ended June 30, 2023 compared to $396.3 million for the three months ended June 30, 2022.

Interest expense was $15.4 million for the three months ended June 30, 2023 compared to $3.4 million for the three months ended June 30, 2022. Similar to our interest-bearing assets, the increase in our interest expense was primarily driven by the change in interest rates and partially offset by the impact of a decline in the average balance of our interest-bearing liabilities. The increase in interest expense was primarily due to an increase in the average rate paid on our interest-bearing deposits of 235 basis points from the three months ended June 30, 2022. Specifically, the average rate paid on money market, savings and NOW accounts, and time deposits increased 233 basis points and 226 basis points, respectively, compared to the three months ended June 30, 2022, as we continued to competitively price our deposits as rates continued to rise throughout the past twelve months. Interest expense related to interest on deposits comprised 87% of total interest expense for the three months ended June 30, 2023 compared to 59% of total interest expense for the three months ended June 30, 2022.

In addition, interest expense on our Subordinated Notes increased $0.7 million as the average rate paid increased to 10.86% for the three months ended June 30, 2023 compared to 6.60% for the three months ended June 30, 2022, as the interest rate on the Subordinated Notes continued to reprice in the rising interest rate environment. With the redemption of the Subordinated Notes on July 15, 2023, we expect to see a positive impact on our interest expense beginning with the third quarter of 2023.

Net interest margin was 2.64% for the three months ended June 30, 2023, down 31 basis points from 2.95% for the three months ended June 30, 2022. The interest rate spread was 2.16% for the three months ended June 30, 2023, down 69 basis points from 2.85% for the three months ended June 30, 2022.

Six Months Ended June 30, 2023 Compared to the Six Months Ended June 30, 2022

Net interest income was $33.9 million for the six months ended June 30, 2023, a decrease of $6.9 million, or 17%, from the six months ended June 30, 2022. The decrease in net interest income primarily reflects interest expense, principally on deposits, increasing more than interest income during the rising rate environment of the past twelve months. The rising rate environment reflects the Federal Open Market Committee increasing the target range for the federal funds rate from 0.00% – 0.25% in March 2022 to 5.00% – 5.25% in June 2023. In addition, the decline in net interest income reflects the continued reduction of our balance sheet.

Interest income was $61.0 million for the six months ended June 30, 2023, an increase of $13.2 million, or 28%, from $47.8 million for the six months ended June 30, 2022. The increase in interest income was primarily due to interest income earned on the average balances of our other interest-earning assets and residential real estate loans as these portfolios repriced upward significantly in the rising rate environment of the past twelve months. Other interest-earning assets, which are comprised primarily of interest-bearing cash deposits, had an average yield of 4.95% for the six months ended June 30, 2023 compared to 0.47% for the six months ended June 30, 2022.

Slightly offsetting the increase in income earned on the average balance of our investment securities and other interest-earning assets was a decline in interest income earned on our loan portfolio. Interest income on our adjustable-rate residential real estate mortgages was favorably impacted by their repricing at higher rates in the rising interest rate environment as the average yield increased 113 basis points from the six months ended June 30, 2022; however, this was partially offset by a decline in the average balance of our loan portfolio of $335.7 million, or 17%, from $1.9 billion for the six months ended June 30, 2022. The decrease in our average balance of loans is primarily attributable to repayments on loans, the suspension of our origination of residential real estate loans and the sale of all loans held for sale.

Although the average balance of our investment securities decreased slightly, these assets had an average yield of 2.76% for the six months ended June 30, 2023 compared to 1.17% for the six months ended June 30, 2022.

Interest expense was $27.1 million for the six months ended June 30, 2023 compared to $7.1 million for the six months ended June 30, 2022. Similar to our interest-bearing assets, the increase in our interest expense was primarily driven by the change in interest rates and partially offset by the impact of a decline in the balance of our interest-bearing liabilities. The increase in interest expense was primarily due to an increase in the average rate paid on our interest-bearing deposits of 200 basis points from the six months ended June 30, 2022. Specifically, the average rate paid on money market, savings and NOW accounts, and time deposits increased 199 basis points and 192 basis points, respectively, compared to the six months ended June 30, 2022, as we continued to competitively price our deposits as rates continued to rise throughout the past twelve months. Interest expense related to interest on deposits comprised 85% of total interest expense for the six months ended June 30, 2023 compared to 62% of total interest expense for the six months ended June 30, 2022.

In addition, interest expense on our Subordinated Notes increased $1.4 million as the average rate paid increased to 10.62% for the six months ended June 30, 2023 compared to 6.25% for the six months ended June 30, 2022, as the interest rate on the Subordinated Notes continued to reprice in the rising interest rate environment. With the redemption of the Subordinated Notes on July 15, 2023, we expect to see a positive impact on our interest expense beginning with the third quarter of 2023.

Net interest margin was 2.78% for the six months ended June 30, 2023, down 21 basis points from 2.99% for the six months ended June 30, 2022. The interest rate spread was 2.33% for the six months ended June 30, 2023, down 56 basis points from 2.89% for the six months ended June 30, 2022.

Provision for (Recovery of) Credit Losses. The following table presents the components of our provision for (recovery of) credit losses:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)			
Provision for (recovery of) credit losses:				
Loans	$ (2,814)	$ (1,109)	$ (2,030)	$ (5,398)
Off-balance sheet credit exposures	(88)	—	(198)	—
Total	$ (2,902)	$ (1,109)	$ (2,228)	$ (5,398)

Our recovery of credit losses was $(2.9) million for the three months ended June 30, 2023 compared to a recovery of loan losses of $(1.1) million for the three months ended June 30, 2022. Our recovery of credit losses was $(2.2) million for the six months ended June 30, 2023 compared to a recovery for loan losses of $(5.4) million for the three months ended June 30, 2022.

The recovery for credit losses on loans for each of the three and six months ended June 30, 2023 primarily reflects the substantial improvement in our overall credit quality, along with the continued decline of the residential loan portfolio. These factors were offset in part by the increase in Substandard commercial real estate loans during the three months ended June 30, 2023, reflecting overall weakness in the commercial real estate market due to the substantial increase in market interest rates and the potential impact on borrowers as these assets reprice or mature.

For additional information on our asset quality and changes to the allowance for credit losses, see “—Asset Quality” and “—Allowance for Credit Losses.”

Non-interest Income. The components of non-interest income were as follows:

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Change Amount	Change Percent	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change Amount	Change Percent
	(Dollars in thousands)							
Service charges and fees	$ 78	$ 105	$ (27)	(26)%	$ 172	$ 227	$ (55)	(24)%
Loss on the sale of investment securities	—	—	—	—	(2)	—	(2)	N/M
Gain on sale of mortgage loans held for sale	1,720	3	1,717	N/M	1,695	200	1,495	N/M
Unrealized loss on equity securities	(71)	(170)	99	58 %	—	(406)	406	100 %
Net servicing income (loss)	102	(177)	279	N/M	161	266	(105)	(39)%
Income earned on company-owned life insurance	81	255	(174)	(68)%	161	583	(422)	(72)%
Other	1	29	(28)	(97)%	2	586	(584)	(100)%
Total non-interest income	$ 1,911	$ 45	$ 1,866	N/M	$ 2,189	$ 1,456	$ 733	50 %

N/M - not meaningful

Non-interest income was $1.9 million for the three months ended June 30, 2023 compared to $45 thousand for the three months ended June 30, 2022. The increase in non-interest income is primarily due to the gain on the sale of all loans held for sale, consisting of mostly nonperforming and delinquent residential real estate held for sale loans, in the second quarter of 2023. Further, net servicing income increased by $0.3 million. Partially offsetting these increases, our income earned on company-owned life insurance declined by $0.2 million due to the surrender of certain policies in the second quarter of 2022.

Non-interest income was $2.2 million for the six months ended June 30, 2023, an increase of $0.7 million for the six months ended June 30, 2022. The increase in non-interest income is primarily due a $1.5 million increase in the gain on sale of all loans held for sale and a $0.4 million decrease in unrealized loss on equity securities from the six months ended June 30, 2022. These items were partially offset by approximately $0.4 million in recoveries of the loan valuation losses previously taken on certain commercial real estate loans, reflected in other non-interest income, that were sold in the first quarter of 2022. In addition, income earned on company-owned life insurance declined by $0.4 million due to the surrender of certain policies in the second quarter of 2022.

Non-interest Expense. The components of non-interest expense were as follows:

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Change Amount	Change Percent	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change Amount	Change Percent
	(Dollars in thousands)							
Salaries and employee benefits	$ 9,274	$ 5,569	$ 3,705	67 %	$ 18,684	$ 15,186	$ 3,498	23 %
Occupancy and equipment	2,051	2,187	(136)	(6)%	4,163	4,329	(166)	(4)%
Professional fees	3,521	7,066	(3,545)	(50)%	6,742	12,223	(5,481)	(45)%
FDIC insurance assessments	263	346	(83)	(24)%	520	715	(195)	(27)%
Data processing	754	762	(8)	(1)%	1,492	1,567	(75)	(5)%
Net provision for (recovery of) mortgage repurchase liability	(59)	(312)	253	81 %	61	(525)	586	N/M
Other	1,537	3,876	(2,339)	(60)%	3,516	5,422	(1,906)	(35)%
Total non-interest expense	$ 17,341	$ 19,494	$ (2,153)	(11)%	$ 35,178	$ 38,917	$ (3,739)	(10)%

N/M - not meaningful

Non-interest expense was $17.3 million and $19.5 million for the three months ended June 30, 2023 and 2022, respectively, and $35.2 million and $38.9 million for the six months ended June 30, 2023 and 2022, respectively.

Salaries and employee benefits increased for the three and six months ended June 30, 2023 compared to the same periods in the prior year. This increase is primarily attributable to the cancellation of certain deferred compensation and split dollar life insurance agreement with our controlling shareholder which resulted in the reversal of the related liabilities of $4.5 million upon the surrender of a large split-dollar life program and certain company-owned life insurance policies during the second quarter of 2022. This increase is partially offset by $0.4 million in separation costs related to the reduction in our mortgage origination personnel and a decline in salaries and employee benefits in 2023 primarily due to our decision to outsource the residential loan origination function.

Professional fees decreased for the three and six months ended June 30, 2023 compared to the same periods in the prior year. This decrease in professional fees is primarily attributable to the conclusion of the OCC investigation with respect to the Bank in September 2022 and the resolution of the DOJ investigation with the entry into the Plea Agreement in March 2023. Additionally, professional fees for the six months ended June 30, 2023 includes $2.2 million of reimbursements received from an insurance carrier in the first quarter of 2023 for previously incurred direct and third-party legal expenses related to the government investigations.

Other non-interest expense decreased for the three and six months ended June 30, 2023 compared to the same periods in the prior year largely due to the additional tax of $1.3 million incurred during the second quarter of 2022 related to the certain company-owned life insurance policies surrender as discussed below. Additionally, the three and six month ended June 30, 2022 includes a $0.7 million loss related to the fair value discount on the repurchase of a pool of Advantage Loan Program loans in May 2022.

Income Tax Expense. We recorded an income tax expense of $1.1 million for the three months ended June 30, 2023 compared to an income tax expense of $3.3 million for the three months ended June 30, 2022. We recorded an income tax expense of $1.1, or effective tax rate of 34.3%, for the six months ended June 30, 2023 compared to an income tax expense of $5.6 million, or an effective tax rate of 64.7%, for the six months ended June 30, 2022. During the three months ended June 30, 2022, the Company surrendered a large split-dollar life program and a few smaller company-owned life insurance policies related to former executives and a controlling shareholder with a cash surrender value of $24.9 million. The increase of $13.1 million in value of the policies over the duration of the ownership of these policies became taxable due to the surrender, resulting in an increase in income tax of expense of $3.6 million for the three and six months ended June 30, 2022. Additionally, other than temporary differences originating in the three and six months ended June 30, 2022 were the non-taxable cancellation of the split-dollar life insurance agreement and the non-deductible additional tax related to the surrender of the company-owned life insurance policies, which together resulted in an income tax benefit of approximately $0.8 million. Our effective tax rate in the 2023 periods varies from the statutory tax rate primarily due to the impact of non-deductible compensation costs.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations when they come due. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans to ensure we have adequate liquidity to fund our operations.

During the first half of 2023, the banking industry experienced significant volatility with multiple high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, unrealized securities losses and eroding consumer confidence in the banking system. Although we were not directly affected by these bank failures, this news caused depositors to withdraw or attempt to withdraw their funds from these and other financial institutions, including us. Our customer deposit balances have remained relatively stable following these bank failures. Should we be exposed to this type of contagion risk in the future, we may need to exit certain positions in investments at a pace and in a market environment that may result in substantial losses. The risk of significant deposit withdrawals may be magnified based on the amount of uninsured deposits; concentrations of depositors in certain industries, geographies and corporate life cycle stages; and the availability of alternative deposit and investment opportunities for our customers.

Our primary sources of funds consist of cash flows from operations, deposits and principal repayments on loans and sales of our investment securities. Additional liquidity is provided by our ability to borrow from the FHLB, our ability to sell portions of our loan portfolio, and access to the discount window of the Federal Reserve and brokered deposits. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

Our most liquid assets are cash and due from banks, interest-bearing time deposits with other banks and investment securities in our available for sale portfolio. These funds offer substantial resources to meet either new loan demand or to help offset reductions in our deposit funding base. At June 30, 2023 and December 31, 2022, cash and due from banks totaled $655.4 million and $379.8 million, respectively; interest-bearing time deposits with other banks totaled $0.9 million; and debt securities available for sale, totaled $334.5 million and $343.6 million, respectively. The substantial increase in market rates allowed us to increase our liquidity through short-term investments with attractive yields. In May 2023, we invested our excess cash in interest-earning deposits, consisting of Treasury bills in an aggregate amount of $50 million, for two-to-three- week periods to earn funds at the higher rate of interest being offered. For the six months ended June 30, 2022, we purchased investment securities of $108.3 million and had maturing investments or principal receipts of $21.9 million We regularly review the need to adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest earning deposits and securities and (4) the objectives of our asset/liability management program. The Company’s Asset Liability Management Committee monitors sources and uses of funds and modifies asset and liability positions as liquidity requirements change. Excess liquid assets are generally invested in interest-earning deposits and short-term securities.

Our liquidity is further enhanced by our ability to pledge loans and investment securities to access secured borrowings from the FHLB. At June 30, 2023 and December 31, 2022, outstanding FHLB advances totaled $50.0 million. There were no amounts outstanding on lines of credit with other banks during the six months ended June 30, 2023. Based on our collateral and holdings of FHLB stock, the Company had additional borrowing capacity with the FHLB of $379.7 million. We also had available credit lines with other banks totaling $80.0 million.

In addition, the FRB has made available to banks the Bank Term Funding Program, against which we can borrow with qualifying collateral, including the bulk of the investment securities portfolio, valued at par as permitted by the terms of the program. The term is for one year and the interest rate is fixed at the time the advance is taken and there is no prepayment penalty. Eligible investments for pledge would include all of the Company’s investment securities except the non-Agency collateralized mortgage obligations and those eligible investments pledged to the FHLB. At June 30, 2023, the Company pledged certain eligible investments totaling $62.6 million which based on this collateral, the Company has unused borrowing capacity of $65.0 million. No advances were outstanding under this program. The program expires on March 11, 2024.

Cash flows from financing activities are primarily impacted by our deposits. Our total deposits were $2.0 billion at June 30, 2023, an increase of $87.5 million, or 4% from December 31, 2022. We generate deposits from local businesses and individuals through customer referrals and other relationships and through our retail presence. We obtain funds from depositors by offering a range of deposit types, including demand, savings money market and time. We utilize borrowings and brokered deposits to supplement funding needs and manage our liquidity position. As of June 30, 2023, time deposits due within one year were $716.0 million, or 35% of total deposits. As of December 31, 2022, time deposits due within one year were $444.9 million, or 23% of total deposits. In addition, we estimated our total uninsured deposits were approximately 24% of total deposits as of June 30, 2023.

Cash flows from investing activities are primarily impacted by our loan activity. The Company’s goal is to obtain as much of its funding for loans held for investment and other earning assets as possible from customer deposits. During the six months ended June 30, 2023 and 2022, we originated $24.3 million and $85.5 million, respectively, of loans. Cash flows provided by loan payoffs totaled $119.4 million and $324.3 million during the six months ended June 30, 2023 and 2022, respectively. From time to time, we also sell residential mortgage loans in the secondary market primarily to third party investors. During the six months ended June 30, 2023, the Company received net proceeds of $37.9 million from the sale of loans, consisting of residential mortgage loans and one commercial real estate loan. Often, the agreements under which we sell residential mortgage loans may contain provisions that include various representations and warranties regarding origination and characteristics of the residential mortgage loans. The Company has outstanding commitments to repurchase pools of Advantage Loan Program loans sold with a total outstanding principal balance of $19.3 million at June 30, 2023. These commitments expire in July 2025. In addition, the unpaid principal balance of the sold Advantage Loan Program loans that would be subject to repurchase by us if 100% of our original offers to repurchase such loans were accepted totaled $37.4 million, which includes loans that we have committed to repurchase.

We are a party to financial instruments in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to make loans and standby letters of credit that are not reflected in our condensed consolidated balance sheets, as well as commitments on unused lines of credit that involve elements of credit and interest rate risk in excess of the amount recorded in the condensed consolidated balance sheets. Our exposure to credit loss is represented by the contractual amount of these instruments. At June 30, 2023, we had unfunded commitments on lines of credit totaling $16.6 million and standby letters of credit outstanding of $24 thousand. The Company is required to estimate the expected credit losses for off-balance sheet credit exposures, including unfunded loan commitments and letters of credit, which are not unconditionally cancellable. At June 30, 2023, the Company has recorded a liability for unfunded commitments of $0.4 million.

The Company is a separate and distinct legal entity from the Bank, and, on a parent company-only basis, the Company's primary source of funding is dividends received from the Bank. Federal banking regulations limit the dividends that may be paid by the Bank. Regulatory approval is required if the Bank's total capital distributions for the applicable calendar year exceed the sum of the Bank's net income for that year to date plus the Bank's retained net income for the preceding two years, or the Bank would not be at least "adequately capitalized" under applicable regulations following the distribution. Federal banking regulations also limit the ability of the Bank to pay dividends under other circumstances. Even if an application is not otherwise required, every savings bank that is a subsidiary of a unitary thrift holding company, such as the Bank, must still file a notice with the FRB at least 30 days before its board of directors declares a dividend or approves a capital distribution. The Company has the legal ability to access the debt and equity capital markets for funding, although the Company currently is required to obtain the prior approval of the FRB in order to issue debt.

In recent years, the Company's primary funding needs on a parent company-only basis have consisted of interest expense on subordinated notes and expenses attributable to public company operations. The Company suspended cash dividends to shareholders and its share repurchase program early in 2020. At June 30, 2023, the Company had $65.0 million in principal amount of Subordinated Notes outstanding that were due April 15, 2026, but were redeemed by us, in whole, on July 15, 2023. The Subordinated Notes were redeemed at a redemption price equal to 100% of the outstanding principal amount plus accrued interest for a total cash payment of $66.8 million. The Bank declared and paid a $65.0 million dividend to the Company in June 2023 to fund the bulk of the redemption. The Subordinated Notes required interest payable quarterly in arrears at a variable-rate of interest of the three-month LIBOR rate plus a margin of 5.82%, which was 11.08% at June 30, 2023.

The Plea Agreement provides that the Company must make a restitution payment of $27.2 million for the benefit of non-insider victim shareholders. On July 19, 2023, the United States District Court for the Eastern District of Michigan approved the Plea Agreement, and the restitution payment required by the Plea Agreement will be paid in the third quarter of 2023. The restitution amount will be administered by a special master to be appointed by the court. The Bank declared and paid a $25 million dividend to the Company in May 2023 to fund the restitution payment.

The Company's ability to pay cash dividends is restricted by the terms of the applicable provisions of Michigan law and the rules and regulations of the OCC and the FRB. In addition, under Michigan law, the Company is prohibited from paying cash dividends if, after giving effect to the dividend, (i) it would not be able to pay its debts as they become due in the usual course of business or (ii) its total assets would be less than the sum of its total liabilities plus the preferential rights upon dissolution of shareholders with preferential rights on dissolution that are superior to those receiving the dividend, and we are currently required to obtain the prior approval of the FRB in order to pay any dividends to our shareholders.

The Company and the Bank are subject to minimum capital adequacy requirements administered by the Federal Reserve and the OCC, respectively. We manage our capital to comply with our internal planning targets and regulatory capital standards administered by the Federal Reserve and the OCC. We review capital levels on a quarterly basis including our needs for additional capital and ability to pay cash dividends.

The federal banking agencies' capital requirements are the result of a final rule implementing recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act. In addition to establishing these minimum regulatory capital requirements, these regulations have established a capital conservation buffer ("CCB") consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The CCB is designed to absorb losses during periods of economic stress. Banking institutions with a (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the minimum plus the CCB will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall.

At December 31, 2022, the Company and the Bank met all regulatory capital requirements to which they were subject and held capital in excess of the CCB; however, effective as of January 1, 2023, the Company and the Bank have each elected to use the CBLR framework for compliance with regulatory capital requirements. At June 30, 2023, the Company and Bank satisfied the requirements of the CBLR framework and therefore are considered to have met the minimum capital requirements to be "well capitalized" under applicable prompt corrective action requirements. Had we been subject to the CBLR framework at December 31, 2022, we would have been in compliance with the CBLR requirements and, as a result, we would have been deemed to be "well capitalized" and in compliance with any other generally applicable capital requirements. For further information regarding our regulatory capital requirements, see Note 12 to our condensed consolidated financial statements included in "Item 1. Financial Statements."

As observed in the wake of the recent bank failures, compliance with regulatory minimum capital requirements is a tool used in assessing the Company's capital adequacy, but is not necessarily determinative of how the Company would fare under extreme stress. Factors that may affect the adequacy of the Company's capital include the inherent limitations of fair value estimates and the assumptions thereof, the inherent limitations of accounting classifications of certain investments and the effect on their measurement, external macroeconomic conditions and their effects on capital and the Company's ability to raise capital or refinance capital commitments, and extent of steps taken by state or federal governmental authorities in periods of extreme stress.

As a result of the guilty plea and criminal conviction pursuant to our Plea Agreement with the DOJ, we fall within the "bad actor" disqualification provisions of Regulation A and Regulation D under the Securities Act. These provisions prohibit an issuer from offering or selling securities in a private placement in reliance on Regulation A for certain small offerings and Regulation D for certain private placement transactions for a period of up to ten years under certain circumstances. The SEC may waive such disqualification upon a showing of good cause that disqualification is not necessary under the circumstances for which the safe harbor exemptions are being denied. Absent a waiver, we will be restricted in our ability to raise capital in a private placement in reliance on the safe harbors provided by Regulation A or Regulation D, although we would remain eligible as an SEC registrant to access the equity capital markets through an SEC-registered offering or through another exemption from the registration requirements. Refer to "Part II, Item 1A.—Risk Factors" for additional information on the potential impact of the "bad actor" disqualification under the federal securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Asset Liability Committee of our board of directors ("ALCO") has oversight of our asset and liability management function, which is implemented and managed by our Management Asset Liability Committee. Our Management Asset Liability Committee meets regularly to review, among other things, the sensitivity of our assets and liabilities to product offering rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.

We manage our exposure to interest rates primarily by structuring our balance sheet in the ordinary course of business based on a risk management infrastructure approved by our board of directors that outlines reporting and measurement requirements. In particular, this infrastructure sets limits, calculated quarterly, for various interest rate-related metrics, our economic value of equity ("EVE") and net interest income simulations involving parallel shifts in interest rate curves. Steepening and flattening yield curves and various prepayment and deposit duration assumptions are prepared at least annually. Our interest rate management policies also require periodic review and documentation of all key assumptions used, such as identifying appropriate interest rate scenarios, setting loan prepayment rates and deposit durations based on historical analysis.

We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may do so in the future. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Net Interest Income Simulation. We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest income. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates on a static balance sheet and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates and pricing decisions on loans and deposits.

The following table presents the estimated changes in net interest income of the Bank, calculated on a bank-only basis, which would result from changes in market interest rates over a 12-month period beginning June 30, 2023 and December 31, 2022. The base net interest income decreased from December 31, 2022 due to a combination of market interest rates and balance sheet size and mix changes. The table below demonstrates that we are asset sensitive at June 30, 2023 and December 31, 2022, with the asset sensitivity of our balance sheet decreasing slightly from December 31, 2022 in the negative rate shocks as a result of updated beta assumptions in our non-maturity deposits.

	At June 30, 2023		At December 31, 2022	
Change in Interest Rates (Basis Points)	Estimated 12-Months Net Interest Income	Change	Estimated 12-Months Net Interest Income	Change
	(Dollars in thousands)			
200	$ 78,824	4 %	$ 83,587	4 %
100	77,346	2 %	82,016	2 %
0	75,675		80,074	
−100	73,207	(3)%	75,959	(5)%
−200	69,531	(8)%	70,881	(12)%

Economic Value of Equity Simulation. We also analyze our sensitivity to changes in interest rates through an EVE model. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities. EVE attempts to quantify our economic value using a discounted cash flow methodology. We estimate what our EVE would be as of a specific date. We then calculate what EVE would be as of the same date throughout a series of interest rate scenarios representing immediate and permanent parallel shifts in the yield curve.

The following table presents, as of June 30, 2023 and December 31, 2022, respectively, the impacts of immediate and permanent parallel hypothetical changes in market interest rates on EVE of the Bank, calculated on a bank-only basis. The base EVE decreased from December 31, 2022 primarily due to $90.0 million of dividends paid by the Bank to the Company. Interest rate and balance sheet mix changes and the implementation of updated non-maturity deposit beta and decay rates also contributed to the lower EVE. The sensitivity of our balance sheet worsened from December 31, 2022 in the up-rate scenarios and improved in the down-rate scenarios primarily as a result of the updated decay assumptions and deposit mix changes. Since EVE is a long-term measurement of value, the change in EVE is not indicative of the short term (12-months) effects on earnings.

	At June 30, 2023		At December 31, 2022	
Change in Interest Rates (Basis Points)	Economic Value of Equity	Change	Economic Value of Equity	Change
	(Dollars in thousands)			
200	$ 281,810	(15)%	$ 489,907	(10)%
100	310,554	(6)%	521,450	(4)%
0	330,138		542,625	
−100	340,207	3 %	537,092	(1)%
−200	339,907	3 %	522,085	(4)%

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables. Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates. Accordingly, the data presented in the tables in this section should not be relied upon as indicative of actual results in the event of changes in interest rates and the resulting EVE and net interest income estimates are not intended to represent and should not be construed to represent our estimate of the underlying EVE or forecast of net interest income. Furthermore, the EVE presented in the foregoing table is not intended to present the fair market value of the Company, nor does it represent amounts that would be available for distribution to shareholders in the event of the liquidation of the Company.

LIBOR Discontinuation

In 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that it would no longer compel banks to submit LIBOR rates after 2021. The administrator of LIBOR extended the publication of the most commonly used U.S. dollar LIBOR settings to June 30, 2023. On March 15, 2022, the Consolidated Appropriations Act of 2022, among other things, provided for the use of interest rates based on SOFR in certain contracts currently based on LIBOR and a safe harbor from liability for utilizing SOFR-based interest rates as a replacement for LIBOR. Regulations implementing this legislation were enacted by the FRB in a final rule on December 16, 2022.

We have significant exposure to financial instruments with attributes that are directly or indirectly dependent on LIBOR to establish their interest rate and/or value. We ceased using LIBOR for new originations on March 8, 2021 and began originating loans based on U.S. Treasury rates. In connection with the cessation of the publication of all LIBOR tenors on June 30, 2023, we have transitioned all of our adjustable-rate loans that were LIBOR-indexed to loans that earn interest based on SOFR with a relevant spread adjustment.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the Company’s reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the specified time periods in the rules and forms of the SEC, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) as of June 30, 2023. Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2023.

Changes in Internal Control Over Financial Reporting

Our management is required to evaluate, with the participation of our Chief Executive Officer and our Chief Financial Officer, any changes in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during each quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There were no changes in our internal control over financial reporting during the three months ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as described below, we are not aware of any material developments to our pending legal proceedings as disclosed in the Company's 2022 Form 10-K and Form 10-Q for the quarter ended March 31, 2023, nor are we involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. We believe that such routine legal proceedings, in the aggregate, are immaterial to our financial condition and results of operations.

Department of Justice Investigation

On March 15, 2023, we entered into a Plea Agreement with the DOJ, resolving the DOJ's investigation focused on the Bank's Advantage Loan Program and related issues, including residential lending practices and public disclosures about that program contained in our filings with the SEC. On July 19, 2023, the United States District Court for the Eastern District of Michigan approved the Plea Agreement. Under the Plea Agreement, the Company pleaded guilty to one count of securities fraud primarily relating to disclosures with respect to the Advantage Loan Program contained in the Company's 2017 IPO Registration Statement and its immediately following Annual Reports on Form 10-K filed in March 2018 and March 2019. Consistent with the Plea Agreement, the sentence issued by the court requires the Company to pay $27.2 million in restitution for the benefit of non-insider victim shareholders; further enhance its compliance program and internal controls with respect to securities law compliance; and provide periodic reports to the DOJ with respect to compliance matters. The restitution amount will be paid by the Company in the third quarter of 2023 and will be administered by a special master to be appointed by the court. No criminal fine was imposed. The Company's obligations under the Plea Agreement are generally effective for three years. This resolution releases the Company, as well as the Bank, from further prosecution for securities fraud and underlying mortgage fraud in the Advantage Loan Program.

Securities and Exchange Commission Investigation

On June 20, 2023, we received a letter from the Division of Enforcement of the SEC informing us that the Division of Enforcement had concluded its investigation of us and does not intend to recommend an enforcement action by the SEC against us. As previously disclosed, we understood that the SEC investigation related to accounting, financial reporting and disclosure matters, as well as our internal controls, related to our now-terminated Advantage Loan Program.

Sterling Bank and Trust, F.S.B. and Sterling Bancorp, Inc. vs. Scott Seligman, et al.

On October 7, 2022, the Company and the Bank commenced an action against the Bank's founder and controlling shareholder, and other nominal defendants, in the United States District Court for the Eastern District of Michigan styled *Sterling Bank and Trust, F.S.B. and Sterling Bancorp, Inc. vs. Scott Seligman, et al.,* No. 2:22-cv-12398-SFC-DRG (E.D. Mich.). The complaint alleges that Mr. Seligman breached his fiduciary duties to the Company and the Bank by, among other actions and inactions, using his controlling position to develop and direct the Bank's now-discontinued Advantage Loan Program to advance his own interests and unjustly enrich himself at the expense of the Company, the Bank and the Company's minority shareholders. The complaint seeks to recover compensatory and other damages, disgorgement of certain monies and injunctive relief. On January 30, 2023, Mr. Seligman and the nominal defendants moved to dismiss the case. The Company and the Bank filed their opposition motions on March 13, 2023, and Mr. Seligman and the nominal defendants filed a reply brief on April 13, 2023. The court will hold a hearing to consider the plaintiff's motion to dismiss, which we currently anticipate to take place in the fourth quarter of 2023. There is no assurance that we will be successful in any final adjudication of this case, that any remedy would be adequate in the event we are successful in the adjudication or that we would achieve an acceptable settlement.

ITEM 1A. RISK FACTORS

Except as described herein, there are no material changes from the risk factors as disclosed in the Company's 2022 Form 10-K and Form 10-Q for the quarter ended March 31, 2023.

We may continue to incur costs in connection with our ongoing cooperation with government investigations of certain individuals involved with the now-terminated Advantage Loan Program.

The Company and the Bank were previously under investigations by the DOJ and the OCC focused on the Bank's now-terminated Advantage Loan Program and related issues. On September 27, 2022, the Company entered into a Consent Order with the OCC, which represented a full and final settlement of the OCC's investigation with respect to the Bank. On March 15, 2023, the Company entered into the Plea Agreement with the DOJ, resolving the DOJ's investigation and releasing the Company and the Bank from further prosecution for securities fraud and underlying mortgage fraud in the now-terminated Advantage Loan Program. On July 19, 2023, the United States District Court for the Eastern District of Michigan approved the Plea Agreement. As part of the Plea Agreement, the Company has agreed to cooperate with the DOJ with respect to the DOJ's investigations of certain individuals involved with the now-terminated Advantage Loan Program.

The DOJ and the OCC continue to investigate certain individuals involved with the now-terminated Advantage Loan Program. The Company and the Bank continue to fully cooperate with these government investigations. This cooperation typically takes the form of production of documents and interviews of current and former employees and directors. Other government agencies also may request information or conduct investigations into the Advantage Loan Program and related matters. As we continue to cooperate with these investigations, we may incur costs and/or expenses as a result of our cooperation with any such investigations. In addition, management's time and resources may be diverted to address requests made by the DOJ or the OCC in connection with such investigations.

In addition, over the past three years, we have received claims from current and former directors, officers and employees, as well as from our controlling shareholder, Scott J. Seligman, for the advancement or reimbursement of legal fees under applicable provisions of the Company's and the Bank's respective charters and bylaws, as well as pursuant to applicable law. In some instances, we have determined that advancement and indemnification is not consistent with applicable law and have denied those requests. To the extent the government investigations of individuals continue and involve the cooperation of individuals entitled to advancement and indemnification, we are likely to continue to receive and pay such claims in accordance with our legal obligations. To the extent such payments are not reimbursed to us by our insurance carriers under applicable policies of directors and officers insurance, such payments may have a material adverse impact on our financial condition and results of operations. Further, the individuals that we have not deemed eligible for advancement and indemnification may commence legal action against us seeking such advancement and indemnification, and several have threatened to do so. Should such actions commence, there is no assurance that we would be successful in any defense thereof, and such actions, if ultimately successful, may have a material adverse impact on our financial condition and results of operations.

We are currently disqualified from the small offering and private placement safe harbor exemptions otherwise available under the federal securities laws, which may adversely affect our ability to offer or sell our securities and raise capital in an efficient manner.

As a result of the guilty plea and criminal conviction pursuant to our Plea Agreement with the DOJ, we fall within the “bad actor” disqualification provisions of Regulation A and Regulation D under the Securities Act. These provisions prohibit an issuer from offering or selling securities in a private placement in reliance on Regulation A for certain small offerings and Regulation D for certain private placement transactions for a period of up to ten years under certain circumstances. The SEC may waive such disqualification upon a showing of good cause that disqualification is not necessary under the circumstances for which the safe harbor exemptions are being denied. Absent a waiver, we will be restricted in our ability to raise capital in a private placement in reliance on Regulation A or Regulation D, although we would remain eligible as an SEC registrant to access the equity capital markets through an SEC-registered offering or through another exemption from the registration requirements. The application of the “bad actor” disqualifications to us could make capital raising more costly or inhibit our ability to raise capital. Reduced or more costly access to capital could inhibit our ability to pursue certain strategic alternatives for adding new products and services and potentially grow our balance sheet. Reduced access to capital also could adversely impact our ability to comply with regulatory capital requirements in the event of adverse economic circumstances in which we were to incur financial losses. Therefore, the failure to obtain a waiver of the “bad actor” disqualification could have an adverse impact on our business, financial condition and results of operations.

The evaluation of strategic alternatives may not result in a strategic transaction and successful implementation of a new strategic plan may be difficult, and we may not be able to fully execute a new strategic plan, which may adversely impact our business, results of operations, and financial condition.

We have historically been a community bank with a thrift charter, offering deposit products and focusing on one- to four-family residential loans, commercial loans, commercial real estate loans, construction loans, and commercial lines of credit. However, the government investigations into and subsequent termination of our most significant loan product, the Advantage Loan Program, the cessation of business by our service provider to whom we outsourced our residential loan origination function, and the economic volatility caused by elevated inflation and the recent rising interest rate environment have made it difficult for us to project a viable growth plan. Accordingly, we have engaged an external consulting firm to assist us with the development of a new strategic plan.

We have also engaged Keefe, Bruyette & Woods as a financial advisor to assist our board of directors to explore and evaluate strategic alternatives. Some of the possible strategic alternatives the board may consider are a sale of the Company, a merger or other business combination, a sale of all or a material portion of the Company’s assets and a recapitalization to support future growth. The Company has not set a definitive schedule to complete its review of strategic alternatives. The Company does not intend to provide any further updates until such time as it has entered into a definitive agreement with respect to a transaction or strategic alternative. The current and future market for bank stocks and bank combinations may not be conducive to engaging in a strategic transaction in the near-term. Even if the Company receives an acceptable proposal for a strategic transaction, there is no assurance that we can successfully negotiate a definitive agreement or obtain the requisite shareholder and regulatory approvals to proceed with such a transaction. Accordingly, we can provide no assurance that our process of evaluating strategic alternatives will result in a transaction or if a transaction is undertaken as to its terms or timing.

In the event our evaluation of strategic alternatives does not result in the identification of a suitable strategic partner and completion of a strategic transaction, our future success will depend on our ability to effectively develop, implement, and execute a new strategic plan. There are risks and uncertainties associated with the implementation and execution of any strategic plan, including the investment of time and resources, the possibility that such strategic plan will ultimately be unprofitable, and the risk of additional liabilities associated with such strategic plan. In addition, we believe our ability to successfully execute on any new initiatives will depend in part on our ability to attract and retain talented individuals to help manage and grow these new operations. Our successful execution of any strategic plan will require satisfactory market conditions that will allow us to grow profitably. Furthermore, the existence of alternative strategies may not necessarily result in a more viable growth path for us or that the strategic alternative chosen will result in short-term growth, and any alternative strategies have their own respective risks. We expect to incur start-up expenses for our new initiatives beginning in the second half of 2023 and throughout 2024, and we do not expect to realize material revenues from these efforts until the latter part of 2024, at best. To the extent we are unable to successfully develop, implement, and execute a new strategic plan, or if we experience delays in the planning and implementation process, our business, financial condition, and results of operations may be adversely affected.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

Withholding of Vested Restricted Stock Awards

During the three months ended June 30, 2023, the Company withheld shares of common stock representing a portion of the restricted stock awards that vested during the period under our employee stock benefit plans in order to pay employee tax liabilities associated with such vesting. These withheld shares are treated the same as repurchased shares for accounting purposes.

The following table provides certain information with respect to our purchases of shares of the Company’s common stock, as of the settlement date, during the three months ended June 30, 2023, all of which represent tax withholding of restricted stock awards:

	Issuer Purchases of Equity Securities			
Period	**Total Number of Shares Purchased[(1)]**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[(2)]**
April 1 - 30, 2023	23,563	$ 5.62	—	$ 19,568,117
May 1 - 31, 2023	5,263	4.89	—	19,568,117
June 1 - 30, 2023	—	—	—	19,568,117
Total	28,826	$ 5.49	—	

(1) These shares were acquired from employees to satisfy income tax withholding requirements in connection with vesting share awards during the three months ended June 30, 2023.

(2) In 2018, the Company announced a stock repurchase program for up to $50 million of its outstanding stock. At June 30, 2023, $19.6 million remains of the $50 million authorized repurchase amount. In March 2020, the Company suspended the stock repurchase program.

ITEM 6. EXHIBITS

A list of exhibits to this Form 10-Q is set forth in the Exhibit Index below.

			Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Filed /Furnished Herewith**	**Form**	**Period Ending**	**Exhibit / Appendix Number**	**Filing Date**
10.1*	First Amendment to Employment Agreement, dated as of June 22, 2023, by and between Sterling Bancorp, Inc. and Thomas M. O'Brien		8-K		10.1	6/23/2023
10.2*	Change of Control Agreement, dated as of June 22, 2023, by and between Sterling Bancorp, Inc. and Thomas M. O'Brien		8-K		10.2	6/23/2023
10.3*	Change of Control Agreement, dated as of June 22, 2023, by and between Sterling Bancorp, Inc. and Elizabeth M. Keogh		8-K		10.3	6/23/2023
31.1	Section 302 Certification — Chief Executive Officer	X				
31.2	Section 302 Certification — Chief Financial Officer	X				
32.1**	Section 906 Certification — Chief Executive Officer	X				
32.2**	Section 906 Certification — Chief Financial Officer	X				
101.INS***	Inline XBRL Instance Document	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	X				

* Indicates a management contract or compensatory plan or arrangement.

** This document is being furnished with this Quarterly Report on Form 10-Q. This certification is deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act, or the Exchange Act.

*** The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

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.

Date: August 9, 2023

STERLING BANCORP, INC.
(Registrant)

By: /s/ THOMAS M. O'BRIEN
Thomas M. O'Brien
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ KAREN KNOTT
Karen Knott
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

**Certification of Chief Executive Officer Pursuant to
Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended,
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Thomas M. O’Brien, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sterling Bancorp, 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 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 15(d)-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;

    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 that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors:

    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 9, 2023

/s/ THOMAS M. O’BRIEN
Thomas M. O’Brien
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to
Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended,
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Karen Knott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sterling Bancorp, 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 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 15(d)-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;

    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 that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors:

    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 9, 2023

/s/ KAREN KNOTT
Karen Knott
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of Sterling Bancorp, Inc. (the “Company”) for the quarter ended June 30, 2023 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2023

/s/ THOMAS M. O’BRIEN
Thomas M. O’Brien
Chief Executive Officer
(principal executive officer)

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of Sterling Bancorp, Inc. (the “Company”) for the quarter ended June 30, 2023 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2023

/s/ KAREN KNOTT
Karen Knott
Chief Financial Officer
(principal financial officer)