UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2020

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

For the transition period from to

Commission File Number 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, no par value per share	SBT	The NASDAQ Stock Market LLC (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 October 13, 2020, there were 49,977,209 shares of the Registrant's Common Stock outstanding.

STERLING BANCORP, INC.
FORM 10-Q
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Sterling Bancorp, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
(dollars in thousands)

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

	June 30, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 623,376	$ 77,819
Interest-bearing time deposits with other banks	9,731	1,025
Investment securities	257,730	152,544
Mortgage loans held for sale	3,184	1,337
Loans, net of allowance for loan losses of $46,931 and $21,730	2,717,224	2,891,530
Accrued interest receivable	13,864	13,718
Mortgage servicing rights, net	7,266	9,765
Leasehold improvements and equipment, net	8,849	9,198
Operating lease right-of-use assets	19,804	18,715
Federal Home Loan Bank stock, at cost	22,950	22,950
Cash surrender value of bank-owned life insurance	32,215	31,917
Deferred tax asset, net	20,093	12,095
Other assets	2,217	2,271
Total assets	$ 3,738,503	$ 3,244,884
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing deposits	$ 72,714	$ 77,563
Interest-bearing deposits	2,819,368	2,417,877
Total deposits	2,892,082	2,495,440
Federal Home Loan Bank borrowings	329,000	229,000
Subordinated notes, net	65,259	65,179
Operating lease liabilities	21,056	19,868
Accrued expenses and other liabilities	99,701	102,783
Total liabilities	3,407,098	2,912,270
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 50,007,415 shares at June 30, 2020 and 49,944,473 shares at December 31, 2019, respectively	80,807	80,889
Additional paid-in capital	13,328	13,210
Retained earnings	236,657	238,319
Accumulated other comprehensive income	613	196
Total shareholders' equity	331,405	332,614
Total liabilities and shareholders' equity	$ 3,738,503	$ 3,244,884

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Interest income				
Interest and fees on loans	$ 37,501	$ 43,301	$ 77,026	$ 85,023
Interest and dividends on investment securities and restricted stock	1,037	1,272	2,071	2,499
Other interest	141	216	575	452
Total interest income	38,679	44,789	79,672	87,974
Interest expense				
Interest on deposits	9,576	11,524	19,940	22,180
Interest on Federal Home Loan Bank borrowings	877	1,375	1,687	2,430
Interest on subordinated notes	1,178	1,175	2,355	2,349
Total interest expense	11,631	14,074	23,982	26,959
Net interest income	27,048	30,715	55,690	61,015
Provision (recovery) for loan losses	4,297	180	25,150	(834)
Net interest income after provision (recovery) for loan losses	22,751	30,535	30,540	61,849
Non-interest income				
Service charges and fees	95	112	212	216
Investment management and advisory fees	255	425	568	765
Gain (loss) on sale of investment securities	(34)	—	199	—
Gain on sale of mortgage loans held for sale	751	142	1,020	180
Gain on sale of portfolio loans	—	1,860	—	4,302
Unrealized gains on equity securities	43	57	123	106
Net servicing loss	(207)	(1,002)	(1,118)	(677)
Income on cash surrender value of bank-owned life insurance	317	315	645	625
Other	103	159	203	379
Total non-interest income	1,323	2,068	1,852	5,896
Non-interest expense				
Salaries and employee benefits	7,336	7,381	14,089	14,648
Occupancy and equipment	2,208	2,170	4,326	4,407
Professional fees	8,268	1,104	11,580	2,066
Advertising and marketing	70	406	343	845
FDIC assessments	240	190	259	445
Data processing	351	303	686	611
Other	1,574	2,171	2,999	3,825
Total non-interest expense	20,047	13,725	34,282	26,847
Income (loss) before income taxes	4,027	18,878	(1,890)	40,898
Income tax expense (benefit)	1,160	5,444	(727)	11,781
Net income (loss)	$ 2,867	$ 13,434	$ (1,163)	$ 29,117
Income (loss) per share, basic and diluted	$ 0.06	$ 0.26	$ (0.02)	$ 0.56
Weighted average common shares outstanding:				
Basic	49,837,948	51,510,951	49,837,805	52,029,816
Diluted	49,841,741	51,520,944	49,837,805	52,039,000

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	$ 2,867	$ 13,434	$ (1,163)	$ 29,117
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities, arising during the period, net of tax effect of $(66), $35, $218, and $77, respectively	(170)	91	560	197
Reclassification adjustment for (gains) losses included in net income of $34, $-, $(199), and $-, respectively, included in gain (loss) on sale of investment securities, net of tax effect of $(10), $-, $56, and $-, respectively	24	—	(143)	—
Total other comprehensive income (loss)	(146)	91	417	197
Comprehensive income (loss)	$ 2,721	$ 13,525	$ (746)	$ 29,314

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2019	53,012,283	$ 111,238	$ 12,713	$ 211,115	$ (9)	$ 335,057
Net income	—	—	—	15,683	—	15,683
Repurchases of shares of common stock	(1,212,574)	(11,544)	—	—	—	(11,544)
Stock-based compensation	71,144	—	126	—	—	126
Other comprehensive income	—	—	—	—	106	106
Dividends distributed ($0.01 per share)	—	—	—	(526)	—	(526)
Balance at March 31, 2019	51,870,853	$ 99,694	$ 12,839	$ 226,272	$ 97	$ 338,902
Net income	—	—	—	13,434	—	13,434
Repurchases of shares of common stock (Note 10)	(1,034,792)	(10,011)	—	—	—	(10,011)
Stock-based compensation	10,460	—	153	—	—	153
Other comprehensive income	—	—	—	—	91	91
Dividends distributed ($0.01 per share)	—	—	—	(516)	—	(516)
Balance at June 30, 2019	50,846,521	$ 89,683	$ 12,992	$ 239,190	$ 188	$ 342,053
Balance at January 1, 2020	49,944,473	$ 80,889	$ 13,210	$ 238,319	$ 196	$ 332,614
Net loss	—	—	—	(4,030)	—	(4,030)
Repurchases of shares of common stock (Note 10)	(10,912)	(82)	—	—	—	(82)
Stock-based compensation	134,177	—	109	—	—	109
Other comprehensive income	—	—	—	—	563	563
Dividends distributed ($0.01 per share)	—	—	—	(499)	—	(499)
Balance at March 31, 2020	50,067,738	$ 80,807	$ 13,319	$ 233,790	$ 759	$ 328,675
Net income	—	—	—	2,867	—	2,867
Stock-based compensation	(60,323)		9		—	9
Other comprehensive loss	—	—	—	—	(146)	(146)
Balance at June 30, 2020	50,007,415	$ 80,807	$ 13,328	$ 236,657	$ 613	$ 331,405

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, 2020	Six Months Ended June 30, 2019
Cash Flows From Operating Activities		
Net income (loss)	$ (1,163)	$ 29,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (recovery) for loan losses	25,150	(834)
Deferred income taxes	(8,159)	(394)
Gain on sale of investment securities	(199)	—
Unrealized gains on equity securities	(123)	(106)
Accretion on investment securities, net	(127)	(883)
Depreciation and amortization on leasehold improvements and equipment	801	796
Amortization of intangible asset	—	225
Origination, premium paid and purchase of loans, net of principal payments, mortgage loans held for sale	(103,713)	(16,248)
Proceeds from sale of mortgage loans held for sale	102,396	16,940
Gain on sale of mortgage loans held for sale	(1,020)	(180)
Gain on sale of portfolio loans	—	(4,302)
Increase in cash surrender value of bank-owned life insurance, net of premiums	(298)	(304)
Valuation allowance adjustments and amoritzation of mortgage servicing rights	2,989	2,723
Stock-based compensation	118	279
Other	80	71
Change in operating assets and liabilities:		
Accrued interest receivable	(146)	(313)
Other assets	2,010	(409)
Accrued expenses and other liabilities	(4,939)	12,990
Net cash provided by (used in) operating activities	13,657	39,168
Cash Flows From Investing Activities		
Purchases of interest-bearing time deposits with other banks	(8,706)	—
Maturities and principal receipts of investment securities	83,231	74,216
Sales of investment securities	59,359	—
Purchases of investment securities	(246,749)	(77,507)
Net decrease (increase) in loans	186,902	(147,189)
Purchases of portfolio loans	(37,746)	—
Proceeds from the sale of portfolio loans	—	121,806
Purchase of leasehold improvements and equipment	(452)	(982)
Net cash provided by (used in) investing activities	35,839	(29,656)
Cash Flows From Financing Activities		
Net increase in deposits	396,642	93,975
Proceeds from advances from Federal Home Loan Bank	100,000	2,461,000
Repayments of advances from Federal Home Loan Bank	—	(2,514,000)
Repurchase of shares of common stock	(82)	(21,555)
Dividends paid to shareholders	(499)	(1,042)
Net cash provided by financing activities	496,061	18,378
Net change in cash and due from banks	545,557	27,890
Cash and due from banks at beginning of period	77,819	52,526
Cash and due from banks at end of period	$ 623,376	$ 80,416
Supplemental cash flows information		
Cash paid:		
Interest	$ 30,589	$ 22,734
Income taxes	838	13,146
Noncash investing and financing activities:		
Transfers of residential real estate loans to mortgage loans held for sale	—	119,233
Transfers of residential real estate loans from mortgage loans held for sale	—	103
Right-of-use assets obtained in exchange for new operating lease liabilities	3,009	513

See accompanying notes to condensed consolidated financial statements.

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

Note 1—Nature of Operations and Basis of Presentation

Nature of Operations

Sterling Bancorp, Inc. (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 residential and commercial real estate loans, construction loans, commercial lines of credit, and other consumer loans and provides deposit products, consisting primarily of checking, savings and term certificate accounts. The Bank operates through a network of 30 branches of which 26 branches are located in San Francisco and Los Angeles, California with the remaining branches located in New York, New York, Southfield, Michigan and the greater Seattle market.

The Company is headquartered in Southfield, Michigan and its operations are in the financial services industry. Management evaluates the performance of its 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 ("Federal Reserve"). The Bank is a federally chartered stock savings bank which 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, 2020, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2020 and 2019 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, 2020 are not necessarily indicative of the results that may be expected for the year ended December 31, 2020 or for any future annual or interim period. The consolidated balance sheet at December 31, 2019 included herein was derived from the audited financial statements as of that date. The accompanying unaudited 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, 2019.

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

Note 2—New Accounting Standards

Recently Issued Accounting Guidance Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is intended to improve financial reporting by requiring recording of credit losses on loans and other financial instruments on a more timely basis. The guidance will replace the current incurred loss accounting model with an expected loss approach and requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. 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 organization's portfolio. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,* which clarifies the scope of the credit losses standard and addresses issues related to accrued interest receivable balances and recoveries, among other things. In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief.* The amendments provide entities with an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis, upon adoption of Topic 326. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. This update deferred the effective dates of Topic 326 to January 1, 2023 for certain entities including smaller reporting companies (as defined by the U.S. Securities and Exchange Commission (the "SEC")). The Company, as a smaller reporting company as of the relevant measuring period, qualifies for this extension.

At this time, the Company has formed a cross-functional implementation team consisting of individuals from credit, finance and information systems. The implementation team has been working with a software vendor to assist in implementing required changes to credit loss estimation models and processes. The historical data set for model development has been finalized, and the credit loss estimation models are in the process of being developed and tested. The Company expects to recognize a cumulative effect adjustment to the opening balance of retained earnings as of the beginning of the first reporting period in which ASU No. 2016-13 is effective. The Company has not yet determined the magnitude of any such one-time adjustment or of the overall impact of ASU No. 2016-13 on its consolidated financial statements.

Note 3—Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The condensed consolidated financial statements include the results of the Company and its wholly-owned subsidiary. 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 period. 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.

(dollars in thousands, except per share amounts)

During 2020, economies throughout the world have been severely disrupted because of the outbreak of the novel coronavirus ("COVID-19"). The Company's primary market areas of California, the greater Seattle market, and New York became part of several epicenters of the COVID-19 pandemic. Banking and financial services have been designated essential businesses, and the Bank's operations are continuing, subject to certain modifications to business practices imposed to safeguard the health and wellness of the Bank's customers and employees, and to comply with applicable government directives. As of June 30, 2020, the impact of the outbreak of COVID-19 was continuing to unfold. As a result, many of management's estimates and assumptions required increased judgement and carried a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, management's estimates may change materially in future periods.

Concentration of Credit Risk

The loan portfolio consists primarily of residential real estate loans which are collateralized by real estate. At June 30, 2020 and December 31, 2019, residential real estate loans accounted for 83% and 85%, respectively, of the loan portfolio. 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, 2020 and December 31, 2019, approximately 87% and 89%, respectively, of the loan portfolio was originated in California.

Starting December 9, 2019, the Bank suspended its Advantage Loan Program and announced that it permanently discontinued this program on March 6, 2020. This Program was a material component of the Bank's total loan originations. Loans under the Advantage Loan Program totaled $1,730,916, or 76% of the residential loan portfolio, as of June 30, 2020, and $1,942,657, or 78% of the residential loan portfolio, as of December 31, 2019.

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, 2020 and December 31, 2019 and the corresponding amounts of gross unrealized gains and losses:

	June 30, 2020			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Available for sale:				
U.S. Treasury & Agency securities	$ 89,984	$ 613	$ (4)	$ 90,593
Mortgage-backed securities	29,330	217	—	29,547
Collateralized mortgage obligations	131,973	512	(457)	132,028
Collateralized debt obligations	215	—	(31)	184
Total	$ 251,502	$ 1,342	$ (492)	$ 252,352

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Available for sale:				
U.S. Treasury securities	$ 122,634	$ 170	$ (1)	$ 122,803
Mortgage-backed securities	23,028	76	—	23,104
Collateralized mortgage obligations	1,138	45	—	1,183
Collateralized debt obligations	216	—	(17)	199
Total	$ 147,016	$ 291	$ (18)	$ 147,289

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

All of the Company's mortgage-backed securities and the majority of the Company's 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 or Federal National Mortgage Association).

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, 2020 and December 31, 2019.

For the three and six months ended June 30, 2020, the proceeds from sales of debt securities available for sale were $36,315 and $59,359, respectively. The Company recorded gross realized gains of $44 and gross realized losses of $78 during the three months ended June 30, 2020, and gross realized gains of $279 and gross realized losses of $80 during the six months ended June 30, 2020.

The amortized cost and fair value of debt securities available for sale issued by U.S. Treasury at June 30, 2020 are shown by contractual maturity. Mortgage-backed securities, collateralized mortgage obligations and collateralized debt obligations are disclosed separately in the table below 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 & Agency securities		
Due less than one year	$ 89,984	$ 90,593
Mortgage-backed securities	29,330	29,547
Collateralized mortgage obligations	131,973	132,028
Collateralized debt obligations	215	184
Total	$ 251,502	$ 252,352

The table summarizes debt securities available for sale, at fair value, with unrealized losses at June 30, 2020 and December 31, 2019 aggregated by major security type and length of time the individual securities have been in a continuous unrealized loss position, as follows:

	June 30, 2020					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury & Agency securities	$ 24,996	$ (4)	$ —	$ —	$ 24,996	$ (4)
Collateralized mortgage obligations	73,432	(457)	—	—	73,432	(457)
Collateralized debt obligations	—	—	184	(31)	184	(31)
Total	$ 98,428	$ (461)	$ 184	$ (31)	$ 98,612	$ (492)

	December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 5,011	$ (1)	$ —	$ —	$ 5,011	$ (1)
Collateralized debt obligations	—	—	199	(17)	199	(17)
Total	$ 5,011	$ (1)	$ 199	$ (17)	$ 5,210	$ (18)

As of June 30, 2020, the debt securities portfolio consisted of 22 debt securities, with nine debt securities in an unrealized loss position. The majority of the unrealized losses in collateralized mortgage obligations are due to agency collateralized mortgage obligations. Agency collateralized mortgage obligations with a carrying value of $72,838 had an unrealized loss of $433 due to a temporary market condition as a result of the COVID-19 pandemic. For debt securities in an unrealized loss position, management has both the intent and ability to hold these investments until the recovery of the decline; thus, the impairment was determined to be temporary. All interest and dividends are considered taxable.

(dollars in thousands, except per share amounts)

A collateralized debt obligation with a carrying value of $184 and $199 at June 30, 2020 and December 31, 2019, respectively, was rated high quality at inception, but it was subsequently rated by Moody's as Ba1, which is defined as "speculative." The issuers of the underlying investments (the collateral) of the collateralized debt obligation are primarily banks. Management uses in-house and third party other-than-temporary impairment evaluation models to compare the present value of expected cash flows to the previous estimate to ensure there are no adverse changes in cash flows during the period. The other-than-temporary impairment model considers the structure and term of the collateralized debt obligations and the financial condition of the underlying issuers. Assumptions used in the model include expected future default rates and prepayments. The collateralized debt obligation remained classified as available for sale and represented $31 and $17 of the unrealized losses reported at June 30, 2020 and December 31, 2019, respectively.

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 Pacific Coast Banker's Bank, a thinly traded, restricted stock. At June 30, 2020 and December 31, 2019, equity securities totaled $5,378 and $5,255, respectively. Equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in income.

At June 30, 2020 and December 31, 2019, equity securities with readily determinable fair values were $5,132 and $5,009, respectively. The following is a summary of unrealized and realized gains and losses recognized in the condensed consolidated statements of income during the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net gains recorded during the period on equity securities	$ 43	$ 57	$ 123	$ 106
Less: net gains recorded during the period on equity securities sold during the period	—	—	—	—
Unrealized gains recorded during the period on equity securities held at the reporting date	$ 43	$ 57	$ 123	$ 106

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. The investment was reported at $246 at both June 30, 2020 and December 31, 2019.

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

Note 5—Loans

Major categories of loans were as follows:

	June 30, 2020	December 31, 2019
Residential real estate	$ 2,280,473	$ 2,476,866
Commercial real estate	265,068	240,081
Construction	201,084	178,376
Commercial lines of credit	17,510	17,903
Other consumer	20	34
Total loans	2,764,155	2,913,260
Less: allowance for loan losses	(46,931)	(21,730)
Loans, net	$ 2,717,224	$ 2,891,530

Loans totaling $1,142,882 and $933,747 were pledged as collateral on FHLB borrowings at June 30, 2020 and December 31, 2019, respectively.

The table presents the activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2020 and 2019:

Three Months Ended June 30, 2020	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 19,154	$ 11,261	$ 11,439	$ 368	$ 1	$ 390	$ 42,613
Provision (recovery) for loan losses	(344)	4,492	557	(18)	—	(390)	4,297
Charge offs	—	—	—	—	—	—	—
Recoveries	2	17	2	—	—	—	21
Total ending balance	$ 18,812	$ 15,770	$ 11,998	$ 350	$ 1	$ —	$ 46,931

Six Months Ended June 30, 2020	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 12,336	$ 5,243	$ 3,822	$ 328	$ 1	$ —	$ 21,730
Provision for loan losses	6,464	10,491	8,173	22	—	—	25,150
Charge offs	—	—	—	—	—	—	—
Recoveries	12	36	3	—	—	—	51
Total ending balance	$ 18,812	$ 15,770	$ 11,998	$ 350	$ 1	$ —	$ 46,931

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

Three Months Ended June 30, 2019	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 13,488	$ 2,351	$ 2,717	$ 824	$ 1	$ 1,317	$ 20,698
Provision (recovery) for loan losses	(738)	832	349	(44)	—	(219)	180
Charge offs	—	—	—	—	—	—	—
Recoveries	8	31	1	—	—	—	40
Total ending balance	$ 12,758	$ 3,214	$ 3,067	$ 780	$ 1	$ 1,098	$ 20,918

Six Months Ended June 30, 2019	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 13,826	$ 2,573	$ 3,273	$ 1,058	$ 1	$ 1,119	$ 21,850
Provision (recovery) for loan losses	(1,081)	579	(209)	(102)	—	(21)	(834)
Charge offs	—	—	—	(176)	—	—	(176)
Recoveries	13	62	3	—	—	—	78
Total ending balance	$ 12,758	$ 3,214	$ 3,067	$ 780	$ 1	$ 1,098	$ 20,918

The following tables present the balance in the allowance for loan losses and the recorded investment by portfolio segment and based on impairment method as of June 30, 2020 and December 31, 2019:

June 30, 2020	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 42	$ —	$ —	$ 4	$ —	$ —	$ 46
Collectively evaluated for impairment	18,770	15,770	11,998	346	1	—	46,885
Total ending allowance balance	$ 18,812	$ 15,770	$ 11,998	$ 350	$ 1	$ —	$ 46,931
Loans:							
Loans individually evaluated for impairment	$ 209	$ 4,567	$ 32,553	$ 2,559	$ —	$ —	$ 39,888
Loans collectively evaluated for impairment	2,280,264	260,501	168,531	14,951	20	—	2,724,267
Total ending loans balance	$ 2,280,473	$ 265,068	$ 201,084	$ 17,510	$ 20	$ —	$ 2,764,155

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

December 31, 2019	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 43	$ —	$ —	$ 5	$ —	$ —	$ 48
Collectively evaluated for impairment	12,293	5,243	3,822	323	1	—	21,682
Total ending allowance balance	$ 12,336	$ 5,243	$ 3,822	$ 328	$ 1	$ —	$ 21,730
Loans:							
Loans individually evaluated for impairment	$ 215	$ 1,100	$ 17,112	$ 1,377	$ —	$ —	$ 19,804
Loans collectively evaluated for impairment	2,476,651	238,981	161,264	16,526	34	—	2,893,456
Total ending loans balance	$ 2,476,866	$ 240,081	$ 178,376	$ 17,903	$ 34	$ —	$ 2,913,260

The following tables present information related to impaired loans by class of loans as of and for the periods indicated:

	At June 30, 2020			At December 31, 2019		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses
With no related allowance for loan losses recorded:						
Residential real estate, first mortgage	$ 118	$ 94	$ —	$ 125	$ 98	$ —
Commercial real estate:						
Retail	1,276	1,060	—	1,308	1,100	—
Hotel/Single-room occupancy hotels	3,508	3,507	—	—	—	—
Construction	32,592	32,553	—	17,156	17,112	—
Commercial lines of credit:						
Private banking	1,245	1,245		1,245	1,245	—
C&I lending	1,186	1,186	—	—	—	—
Subtotal	39,925	39,645	—	19,834	19,555	—
With an allowance for loan losses recorded:						
Residential real estate, first mortgage	115	115	42	116	117	43
Commercial lines of credit, private banking	128	128	4	132	132	5
Subtotal	243	243	46	248	249	48
Total	$ 40,168	$ 39,888	$ 46	$ 20,082	$ 19,804	$ 48

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

In the above tables, the unpaid principal balance is not reduced for partial charge offs. Also, the recorded investment excludes accrued interest receivable on loans which was not significant.

	Three Months Ended					
	June 30, 2020			June 30, 2019		
	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	$ 94	$ —	$ —	$ 104	$ —	$ —
Commercial real estate:						
Retail	1,070	14	10	1,146	15	10
Hotel/Single-room occupancy hotels	3,502	—	—	—	—	—
Construction	32,047	344	190	7,391	172	100
Commercial lines of credit:						
Private banking	1,243	21	14	—	—	—
C&I lending	1,284	—	—	100	2	1
Subtotal	39,240	379	214	8,741	189	111
With an allowance for loan losses recorded:						
Residential real estate, first mortgage	116	2	1	118	2	1
Commercial lines of credit, Private banking	129	1	1	137	2	1
Subtotal	245	3	2	255	4	2
Total	$ 39,485	$ 382	$ 216	$ 8,996	$ 193	$ 113

	Six Months Ended					
	June 30, 2020			June 30, 2019		
	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	$ 97	$ —	$ —	$ 105	$ —	$ —
Commercial real estate:						
Retail	1,089	29	24	1,156	30	25
Multifamily	—	—	—	541	12	12
Offices	—	—	—	761	25	25
Hotel/Single-room occupancy hotels	3,502	—	—	—	—	—
Construction	30,394	810	597	8,435	318	246
Commercial lines of credit:						
Private banking	1,245	42	35	—	—	—
C&I lending	1,284	—	—	100	4	3
Subtotal	37,611	881	656	11,098	389	311
With an allowance for loan losses recorded:						
Residential real estate, first mortgage	116	3	2	119	3	2
Commercial lines of credit, Private banking	130	3	3	138	4	3
Subtotal	246	6	5	257	7	5
Total	$ 37,857	$ 887	$ 661	$ 11,355	$ 396	$ 316

Also presented in the above table is the average recorded investment of the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received under the cash basis method. The average balances are calculated based on the month-end balances of the loans for the period reported.

(dollars in thousands, except per share amounts)

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2020 and December 31, 2019:

	June 30, 2020		December 31, 2019	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Residential real estate:				
Residential first mortgage	$ 36,750	$ 48	$ 14,482	$ 50
Residential second mortgage	685	—	210	—
Commercial real estate:				
Retail	30	—	40	—
Hotel/Single room occupancy hotels	3,507	—	—	—
Construction	12,054	—	—	—
Commercial lines of credit:				
Private banking	1,186	—	—	—
Total	$ 54,212	$ 48	$ 14,732	$ 50

The following tables present the aging of the recorded investment in past due loans as of June 30, 2020 and December 31, 2019 by class of loans:

June 30, 2020	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate:						
Residential first mortgage	$ 49,191	$ 11,764	$ 36,798	$ 97,753	$ 2,159,647	$ 2,257,400
Residential second mortgage	12	127	685	824	22,249	23,073
Commercial real estate:						
Retail	—	—	30	30	17,864	17,894
Multifamily	—	—	—	—	80,891	80,891
Offices	1,645	—	—	1,645	26,006	27,651
Hotels/Single-room occupancy hotels	7,806	9,561	3,507	20,874	52,354	73,228
Industrial	—	—	—	—	14,029	14,029
Other	—	—	—	—	51,375	51,375
Construction	—	10,579	12,054	22,633	178,451	201,084
Commercial lines of credit:						
Private banking	—	—	—	—	4,915	4,915
C&I lending	—	—	1,186	1,186	11,409	12,595
Other consumer	—	—	—	—	20	20
Total	$ 58,654	$ 32,031	$ 54,260	$ 144,945	$ 2,619,210	$ 2,764,155

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

December 31, 2019	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate:						
Residential first mortgage	$ 36,112	$ 5,112	$ 14,532	$ 55,756	$ 2,396,800	$ 2,452,556
Residential second mortgage	97	295	210	602	23,708	24,310
Commercial real estate:						
Retail	—	—	40	40	6,089	6,129
Multifamily	—	—	—	—	64,873	64,873
Offices	—	—	—	—	28,048	28,048
Hotel/Single-room occupancy hotels	5,605	—	—	5,605	76,165	81,770
Industrial	—	—	—	—	14,150	14,150
Other	—	—	—	—	45,111	45,111
Construction	15,008	—	—	15,008	163,368	178,376
Commercial lines of credit:						
Private banking	—	—	—	—	11,914	11,914
C&I lending	1,249	—	—	1,249	4,740	5,989
Other consumer	—	—	—	—	34	34
Total	$ 58,071	$ 5,407	$ 14,782	$ 78,260	$ 2,835,000	$ 2,913,260

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential real estate and other consumer loans, the Company also evaluates credit quality based on the aging status of the loan, which is presented above, and by payment activity. The Company reviews the status of nonperforming loans which include loans 90 days past due and still accruing and nonaccrual loans.

As a response to COVID-19, the Company has offered forbearance under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act to customers facing COVID-19 related financial difficulties. The Company is not adjusting the aging of loans for customers granted a payment deferral in response to COVID-19. These loans remain in the aging category that was applicable at the time of payment deferral. Interest continues to accrue on these loans.

Troubled Debt Restructurings

At June 30, 2020 and December 31, 2019, the balance of outstanding loans identified as troubled debt restructurings was $28,403 and $13,708 respectively. The allocated portion of the allowance for loan losses with respect to these loans was $46 and $48 at June 30, 2020 and December 31, 2019, respectively. One construction loan of $5,263 identified as troubled debt restructurings subsequently defaulted. The effect of the default on the allowance for loan losses was not significant due to collateral coverage.

During the six months ended June 30, 2020, the Bank modified the terms of three construction loans and one private banking loan by providing for an extension of the maturity dates at the contract's existing rate of interest, which is lower than the current market rate for new debt with similar risk. The outstanding recorded investment was $13,777 both before and after modification. During the six months ended June 30, 2019, the Bank modified the terms of a construction loan by providing for an extension of the maturity dates at the contract’s existing rate of interest, which is lower than the current market rate for new debt with similar risk. The outstanding recorded investment was $1,046 both before and after modification. The effect of the modification on the allowance for loan losses was not significant.

The terms of certain other loans have been modified during the six months ended June 30, 2020 and 2019 that did not meet the definition of a troubled debt restructuring. These other loans that were modified were not considered significant.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued
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Certain provisions of the CARES Act encourage financial institutions to practice prudent efforts to work with borrowers impacted by COVID-19. Under these provisions, a modification deemed to be COVID-19 related would not be considered a troubled debt restructuring if the loan was not more than 30 days past due as of December 31, 2019 and the deferral was executed between March 1, 2020 and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020. The banking regulators issued similar guidance, which also clarified that a COVID-19 related modification should not be considered a troubled debt restructuring if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification is considered to be short-term. Under these terms, the Company had implemented a COVID-19 forbearance program that generally provided for principal and interest forbearance for 120 days to residential and commercial borrowers and these loans were not considered troubled debt restructurings. As of June 30, 2020, the Company had approximately 210 loans in forbearance status with an aggregate loan balance of $125,822. Total accrued interest receivables on these loans were $1,793. As of September 30, 2020, there are 73 loans that remain in payment deferral totaling $54,413. Total accrued interest receivables on these loans were $1,055.

Foreclosure Proceedings

At June 30, 2020 and December 31, 2019, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is $8,132 and $1,643, respectively.

Credit Quality

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 lines of credit, construction and commercial real estate loans. This analysis is performed at least quarterly. The Company uses the following definitions for risk ratings:

Pass: Loans are of satisfactory quality.

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 debt. 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.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued
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At June 30, 2020 and December 31, 2019, the risk rating of loans by class of loans was as follows:

June 30, 2020	Pass	Special Mention	Substandard	Doubtful	Total
Residential real estate:					
Residential first mortgage	$ 2,220,601	$ —	$ 36,437	$ 362	$ 2,257,400
Residential second mortgage	22,388	—	685	—	23,073
Commercial real estate:					
Retail	16,008	826	1,060	—	17,894
Multifamily	69,249	3,259	8,383	—	80,891
Offices	13,814		13,837	—	27,651
Hotels/Single-room occupancy hotels	20,553	11,787	40,888	—	73,228
Industrial	5,882	—	8,147	—	14,029
Other	43,076	2,408	5,891	—	51,375
Construction	147,021	20,382	33,681	—	201,084
Commercial lines of credit:					
Private banking	3,670	—	1,245	—	4,915
C&I lending	11,409	—	1,186	—	12,595
Other consumer	20	—	—	—	20
Total	$ 2,573,691	$ 38,662	$ 151,440	$ 362	$ 2,764,155

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Residential real estate:					
Residential first mortgage	$ 2,438,024	$ —	$ 14,077	$ 455	$ 2,452,556
Residential second mortgage	24,100	—	210	—	24,310
Commercial real estate:					
Retail	4,195	834	1,100	—	6,129
Multifamily	56,164	7,150	1,559	—	64,873
Offices	24,484	645	2,919	—	28,048
Hotels/Single-room occupancy hotels	60,074	18,189	3,507	—	81,770
Industrial	5,894	8,256	—	—	14,150
Other	37,693	920	6,498	—	45,111
Construction	156,339	7,008	15,029	—	178,376
Commercial lines of credit:					
Private banking	10,669	1,245	—	—	11,914
C&I lending	4,013	—	1,976	—	5,989
Other consumer	34	—	—	—	34
Total	$ 2,821,683	$ 44,247	$ 46,875	$ 455	$ 2,913,260

During the three and six months ended June 30, 2019, the Bank sold pools of residential real estate mortgages for $71,915 and $121,806, respectively, to third-party investors. The transactions resulted in full de-recognition of the mortgages (i.e. transferred assets) from the condensed consolidated balance sheets and recognition of gain on sale of portfolio loans of $1,860 and $4,302 for the three and six months ended June 30, 2019, respectively. After the sales, the Bank's only continuing involvement in the transferred assets is to act as servicer or subservicer of the mortgages. During the three and six months ended June 30, 2020, the Bank negotiated the repurchase of two pools of Advantage Loan Program loans with a total outstanding unpaid principal balance of $38,704. The Company recognized a loss of $136 in other non-interest expense in connection with these repurchases. For more information on repurchase exposures, see Note 16-Commitments and Contingencies.

(dollars in thousands, except per share amounts)

Note 6—Mortgage Servicing Rights, net

The Bank 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, 2020 and December 31, 2019 are as follows:

	June 30, 2020	December 31, 2019
Residential real estate mortgage loan portfolios serviced for:		
FNMA	$ 174,615	$ 130,425
FHLB	86,224	86,778
Private investors	540,020	656,035
Total	$ 800,859	$ 873,238

Custodial escrow balances maintained with these serviced loans were $5,794 and $7,688 at June 30, 2020 and December 31, 2019, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Mortgage servicing rights:				
Beginning of period	$ 10,302	$ 10,892	$ 10,845	$ 10,733
Additions	383	1,019	490	1,862
Amortization	(1,116)	(838)	(1,766)	(1,522)
End of period	9,569	11,073	9,569	11,073
Valuation allowance at beginning of period	2,326	137	1,080	100
Additions (recoveries)	(23)	1,164	1,223	1,201
Valuation allowance at end of period	2,303	1,301	2,303	1,301
Mortgage servicing rights, net	$ 7,266	$ 9,772	$ 7,266	$ 9,772

Servicing fee income, net of amortization of servicing rights and changes in the valuation allowance, was $(207) and $(1,002) for the three months ended June 30, 2020 and 2019, respectively, and $(1,118) and $(677) for the six months ended June 30, 2020 and 2019, respectively.

The fair value of mortgage servicing rights was $7,453 and $10,271 at June 30, 2020 and December 31, 2019, 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, 2020 was determined using discount rates ranging from 9.5% to 12.0%, prepayment speeds ranging from 6.8% to 37.0%, depending on the stratification of the specific right, and a weighted average default rate of 0.2%. The fair value at December 31, 2019 was determined using discount rates ranging from 9.5% to 12.0%, prepayment speeds ranging from 6.8% to 47.1%, depending on the stratification of the specific right, and a weighted average default rate of 0.2%.

At June 30, 2020 and December 31, 2019, the carrying amount of certain individual groupings exceeded their fair values. See Note 13-Fair Values of Financial Instruments.

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Note 7—Deposits

Time deposits, included in interest-bearing deposits, were $1,580,592 and $1,154,076 at June 30, 2020 and December 31, 2019, respectively. Time deposits included brokered deposits of $92,751 and $25,000 at June 30, 2020 and December 31, 2019, respectively.

Time deposits that meet or exceed the FDIC insurance limit of $250 were $444,267 and $283,457 at June 30, 2020 and December 31, 2019, respectively.

Note 8—FHLB Borrowings

FHLB borrowings at June 30, 2020 and December 31, 2019 consist of the following:

	June 30, 2020	Interest Rates	December 31, 2019	Interest Rates
Long-term fixed rate advances	$ 329,000	0.43%-1.96%	$ 229,000	1.07%-1.96%

FHLB Advances

The long-term fixed rate advances have maturity dates ranging from July 2020 to February 2030. Interest on these advances is payable monthly and each advance is payable at its maturity date, and may contain a prepayment penalty if paid before maturity. At June 30, 2020, advances totaling $307,000 were callable by the FHLB as follows: $100,000 in August 2020; $67,000 in September 2021; $90,000 in October 2021; and $50,000 in May 2024. At June 30, 2020, the Bank had additional borrowing capacity of $420,023 from the FHLB, which was reduced to $80,036 subsequent to quarter end with the withdrawal of certain loans originated under the Advantage Loans Program which had been pledged as collateral.

FHLB Overdraft Line of Credit

The Bank has established an overdraft line of credit agreement with the FHLB providing maximum borrowings of $50,000. The average amount outstanding during the six months ended June 30, 2020 and 2019 was $3 and $3,839, respectively. Borrowings accrue interest based on a variable rate based on the FHLB's overnight cost of funds rate, which was 0.55% and 1.99% at June 30, 2020 and December 31, 2019, respectively. The agreement has a one-year term and terminates in October 2020.

The FHLB advances and the overdraft line of credit are collateralized by pledged loans. Refer to Note 5 for further information on loans pledged.

Other Borrowings

The Bank had available unsecured credit lines with other banks totaling $100,000 and $70,000 at June 30, 2020 and December 31, 2019, respectively. There were no borrowings under these credit lines during the six months ended June 30, 2020 or the year ended December 31, 2019.

(dollars in thousands, except per share amounts)

Note 9—Subordinated Notes, net

The subordinated notes (the "Notes") were as follows:

	June 30, 2020	December 31, 2019
7.0% fixed to floating rate subordinated notes	$ 65,000	$ 65,000
Unamortized note premium	443	474
Unamortized debt issuance costs	(184)	(295)
Total	$ 65,259	$ 65,179

The Notes bear interest at 7% per annum, payable semi-annually on April 15 and October 15 in arrears, through April 2021 after which the Notes will have a variable interest rate of the three-month London Interbank Offered Rate ("LIBOR") rate plus a margin of 5.82%. Premiums and debt issuance costs are amortized over the contractual term of the Notes into interest expense using the effective interest method. Interest expense on these Notes was $1,178 and $1,175 for the three months ended June 30, 2020 and 2019, respectively, and $2,355 and $2,349 for the six months ended June 30, 2020 and 2019, respectively. The Notes mature in April 2026.

On or after April 14, 2021, the Company may redeem the Notes, in whole or in part, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued interest, in a principal amount with integral multiples of $1. The Notes are not redeemable by the Company prior to April 14, 2021 except in the event that (i) the Notes no longer qualify as Tier 2 Capital, (ii) the interest on the Notes is determined by law to be not deductible for Federal Income Tax reporting or (iii) the Company is considered an investment company pursuant to the Investment Company Act of 1940. The Notes are not subject to redemption by the noteholder.

The 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. The Notes may be included in Tier 2 capital for the Company under current regulatory guidelines and interpretations. As long as the Notes are outstanding, the Company is permitted to pay dividends if prior to such dividends, the Bank is considered well capitalized, as defined in Note 14-Regulatory Capital Requirements.

Note 10—Stock Repurchase Program

In late 2018, the board of directors approved the repurchase of up to $50,000 of the Company's outstanding shares of common stock. The stock repurchase program permits the Company to purchase shares of its common stock from time to time in the open market or in privately negotiated transactions. The program does not have an expiration date. The Company received regulatory approval of its stock repurchase program and publicly announced the program in January 2019. Under this program, the Company is not obligated to repurchase shares of its common stock. The repurchased shares will be canceled and returned to authorized but unissued status.

During the six months ended June 30, 2020, the Company repurchased and cancelled 10,912 shares of its common stock for $82, including commissions and fees (average repurchase price of $7.57 per share). Such repurchases of common stock were funded through cash generated from operations. As of June 30, 2020, the Company had $19,568 of common stock purchases remaining that may be made under the program.

In March 2020, the Company suspended the stock repurchase program for at least the near term in connection with the issues giving rise to the internal review of the Advantage Loan Program (the "Internal Review"), which has been led by outside legal counsel under the direction of a special committee of independent directors (the "Special Committee"). The primary focus of the Internal Review involved the origination of residential mortgage loans under the Advantage Loan Program and related matters. Refer to Note 16-Commitments and Contingencies for further information regarding the Internal Review.

Note 11—Stock-based Compensation

The board of directors established a 2017 Omnibus Equity Incentive Plan (the “Plan”) which was approved by the shareholders. The Plan provides 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 board of directors of the Company. The stock-based awards are issued at no less than the market price on the date the awards are granted.

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. Stock option awards granted prior to 2020 generally vest in installments of 50% in each of the third and fourth year after the date of grant, while stock options awards granted in 2020 vest ratably over three years (33% per year) after the date of grant. All stock option awards have a maximum term of ten years.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted below. Estimating the grant date fair values for employee stock options requires management to make assumptions regarding expected volatility of the value of those underlying shares, the risk-free rate over the expected life of the stock options and the date on which share-based payments will be settled. Expected volatilities are based on a weighted average of the Company’s historic volatility and an implied volatility for a group of industry-relevant bank holding companies as of the measurement date. The expected term of options granted is calculated using the simplified method (the midpoint between the end of the vesting period and the end of the maximum term). The risk-free rate for the expected term of the option is based upon U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield represents what the Company anticipates will be declared during the expected term of the options.

On March 2, 2020, the board of directors approved the issuance of options to purchase 67,361 shares of common stock with an exercise price of $7.10 to certain key employees, which are accounted for as equity awards. These options to purchase shares of common stock had a weighted average grant-date fair value of $1.78 per option.

In connection with Mr. O'Brien entering into an Employment Agreement with the Company on May 31, 2020, on June 5, 2020 the Company granted Mr. O'Brien options to purchase 300,000 shares of common stock with an exercise price of $4.00 per share. The options vest 1/3 on January 1, 2021, 1/3 on the first anniversary of the date of grant, and 1/3 on January 1, 2022 subject to his remaining employed on the vesting date; provided that the unvested portion of the Option would vest immediately in full upon Mr. O'Brien's termination of employment due to "death" or "disability" and would vest immediately in full upon a "change of control" (each, as defined in Mr. O'Brien's Employment Agreement). In the event of termination of employment other than termination for "cause" (as defined in Mr. O'Brien's Employment Agreement), if the Option is exercisable at the time of such termination of employment, it will remain exercisable for three years following termination, provided that Mr. O'Brien remains in compliance with certain terms contained in his Employment Agreement. The Company is required to cause such equity awards to be registered with the SEC as soon as practicable following the Company's eligibility to do so. The options have a maximum term of ten years.

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The grant-date fair value of each stock option award was estimated using the Black-Scholes option pricing model that uses the weighted average assumptions set forth in the following table:

Exercise price of options	$ 4.57
Risk-free interest rate	0.49 %
Expected term (in years)	5.61
Expected stock price volatility	33.91 %
Dividend yield	0.10 %

A summary of the Company's stock option activity as of and for the six months ended June 30, 2020 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	142,477	$ 12.29	8.60	$ —
Granted	367,361	4.57		
Exercised	—	—		
Forfeited /expired	(49,770)	9.98		
Outstanding at June 30, 2020	460,068	$ 6.37	9.46	$ —

The Company recorded stock-based compensation expense associated with stock options of $29 and $39 for the three months ended June 30, 2020 and 2019, respectively, and $55 and $71 for the six months ended June 30, 2020 and 2019, respectively. At June 30, 2020, there was $628 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.57 years. No options are exercisable at June 30, 2020.

Restricted Stock Awards

On March 2, 2020, the board of directors approved the issuance of 141,374 restricted stock awards to certain key employees. The restricted stock awards vest ratably over three years (33% per year) after the date of grant. Upon a change in control, as defined in the Plan, the outstanding restricted stock awards will immediately vest. 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.

A summary of the Company's restricted stock awards activity for the six months ended June 30, 2020 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	100,096	$ 11.02
Granted	141,374	6.98
Vested	(10,460)	9.52
Forfeited	(67,520)	9.33
Nonvested at June 30, 2020	163,490	$ 8.32

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 $(20) and $114 for the three months ended June 30, 2020 and 2019, respectively, and $63 and $208 for the six months ended June 30, 2020 and

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2019, respectively. At June 30, 2020, there was $1,029 of total unrecognized compensation cost related to the nonvested stock granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.60 years.

Note 12—Income (Loss) Per Share

Basic income per common share is computed by dividing net income 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. The following table presents the computation of income (loss) per share, basic and diluted:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net income (loss)	$ 2,867	$ 13,434	$ (1,163)	$ 29,117
Denominator:				
Weighted average common shares outstanding, basic	49,837,948	51,510,951	49,837,805	52,029,816
Weighted average effect of potentially dilutive common shares:				
Stock options	—	—	—	—
Restricted stock	3,793	9,993	—	9,184
Weighted average common shares outstanding, diluted	49,841,741	51,520,944	49,837,805	52,039,000
Income (loss) per share, basic and diluted	$ 0.06	$ 0.26	$ (0.02)	$ 0.56

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Stock options	460,068	174,514	330,617	174,514
Restricted stock	163,490	10,460	198,882	57,352
Total	623,558	184,974	529,499	231,866

Note 13—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.

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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). Discounted cash flows are calculated using spread to LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the analysis. Rating agency and industry research reports as well as defaults and deferrals on individual investment securities are reviewed and incorporated into the calculations.

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 5, 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, 2020 and December 31, 2019:

	Fair Value Measurements at June 30, 2020			
	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 & Agency securities	$ 90,593	$ 65,596	$ 24,997	$ —
Mortgage-backed securities	29,547	—	29,547	—
Collateralized mortgage obligations	132,028	—	132,028	—
Collateralized debt obligations	184	—	—	184
Equity securities	5,132	5,132	—	—

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	Fair Value Measurements at December 31, 2019			
	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 securities	$ 122,803	$ 122,803	$ —	$ —
Mortgage-backed securities	23,104	—	23,104	—
Collateralized mortgage obligations	1,183	—	1,183	—
Collateralized debt obligations	199	—	—	199
Equity securities	5,009	5,009	—	—

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2020 and 2019:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Collateralized Debt Obligations	
	June 30, 2020	June 30, 2019
Balance of recurring Level 3 assets at beginning of period	$ 199	$ 297
Total gains or losses (realized/unrealized):		
Included in income-realized	—	—
Included in other comprehensive income (loss)	(14)	(11)
Principal maturities/settlements	(1)	(2)
Sales	—	—
Transfers in and/or out of Level 3	—	—
Balance of recurring Level 3 assets at end of period	$ 184	$ 284

Unrealized losses on Level 3 investments for collateralized debt obligations was $31 and $17 at June 30, 2020 and December 31, 2019, respectively. In addition to the amounts included in income as presented in the table above, interest income recorded on collateralized debt obligations was $4 and $8 for the six months ended June 30, 2020 and 2019, respectively.

The fair value of the collateralized debt obligations is obtained from third party pricing information. It is determined by calculating discounted cash flows using LIBOR curves plus 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.

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Assets Measured at Fair Value on a Non-Recurring Basis

From time to time, the Bank 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 which were still held in the condensed consolidated balance sheet at June 30, 2020 and December 31, 2019, 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, 2020			
	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	$ 6,743	$ —	$ —	$ 6,743

	Fair Value Measurements at December 31, 2019			
	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	$ 7,949	$ —	$ —	$ 7,949

The following table presents quantitative information about Level 3 fair value measurements for the financial instruments measured at fair value on a nonrecurring basis at June 30, 2020 and December 31, 2019:

	Quantitative Information about Level 3 Fair Value Measurements at June 30, 2020			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average) (1)
Mortgage servicing rights	$ 6,743	Discounted cash flow	Discount rate	9.5% - 12.0% (11.6%)
			Prepayment speed	8.3%-37.0% (22.6%)
			Default rate	0.1%-0.3% (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.

	Quantitative Information about Level 3 Fair Value Measurements at December 31, 2019			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average) (1)
Mortgage servicing rights	$ 7,949	Discounted cash flow	Discount rate	9.5% - 12.0% (11.9%)
			Prepayment speed	7.2% - 47.1% (21.3%)
			Default rate	0.1% - 0.3% (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.

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Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments not carried at fair value at June 30, 2020 and December 31, 2019, are as follows:

	Fair Value Measurements at June 30, 2020				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and due from banks	$ 623,376	$ 623,376	$ 623,376	$ —	$ —
Interest-bearing time deposits with other banks	9,731	9,731	—	9,731	—
Mortgage loans held for sale	3,184	3,324	—	3,324	—
Loans, net	2,717,224	2,756,064	—	—	2,756,064
Financial Liabilities					
Time deposits	1,580,592	1,588,961	—	1,588,961	—
Federal Home Loan Bank borrowings	329,000	326,753	—	326,753	—
Subordinated notes, net	65,000	55,250	—	55,250	—

	Fair Value Measurements at December 31, 2019				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and due from banks	$ 77,819	$ 77,819	$ 77,819	$ —	$ —
Interest-bearing time deposits with other banks	1,025	1,025	1,025	—	—
Mortgage loans held for sale	1,337	1,368	—	1,368	—
Loans, net	2,891,530	2,978,846	—	—	2,978,846
Financial Liabilities					
Time deposits	1,154,076	1,161,490	—	1,161,490	—
Federal Home Loan Bank borrowings	229,000	227,333	—	227,333	—
Subordinated notes, net	65,179	65,650	—	65,650	—

Note 14—Regulatory Capital Requirements

The Bank is subject to the capital adequacy requirements of the OCC. The Company, as a thrift holding company, 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. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Prompt corrective action provisions are not applicable to thrift holding companies. Failure to meet minimum capital requirements can initiate regulatory action that could have a direct material effect on the condensed consolidated financial statements.

Prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition.

Under the Basel III rules, the Company must hold a capital conservation buffer over the adequately capitalized risk-based capital ratios. At present, in order to avoid the imposition of restrictions on capital distributions and discretionary bonus payments, the Company is required to maintain a capital conservation buffer of at least 2.50%. The net unrealized gain or loss on investment securities is not included in regulatory capital. Banking organizations are required to maintain a minimum total capital ratio of 10.5%, a minimum Tier 1 capital ratio of 8.5% and a minimum common equity Tier 1 capital ratio of 7.0%, respectively (in each case accounting for the required capital conservation buffer). Management believes that at June 30, 2020, the Company and the Bank meet all regulatory capital requirements to which they are subject.

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The holding company contributed $50,000 of capital into the Bank during the first quarter of 2020. At June 30, 2020 and December 31, 2019, the Bank exceeded all capital requirements to be categorized as well-capitalized and the Company exceeded the applicable capital adequacy requirements as presented below. The Company and the Bank's actual and minimum required capital amounts and ratios, with such regulatory minimums not including the capital conservation buffer, at June 30, 2020 and December 31, 2019 are as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2020						
Total adjusted capital to risk-weighted assets						
Consolidated	$ 420,583	21.68 %	$ 155,215	8.00 %	N/A	N/A
Bank	401,190	20.71	154,983	8.00	$ 193,729	10.00 %
Tier 1 (core) capital to risk-weighted assets						
Consolidated	330,792	17.05	116,411	6.00	N/A	N/A
Bank	376,692	19.44	116,237	6.00	154,983	8.00
Common Equity Tier 1 (CET1)						
Consolidated	330,792	17.05	87,308	4.50	N/A	N/A
Bank	376,692	19.44	87,178	4.50	125,924	6.50
Tier 1 (core) capital to adjusted tangible assets						
Consolidated	330,792	9.20	143,757	4.00	N/A	N/A
Bank	376,692	10.49	143,642	4.00	179,552	5.00

	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Total adjusted capital to risk-weighted assets						
Consolidated	$ 419,327	21.49 %	$ 156,081	8.00 %	N/A	N/A
Bank	346,985	17.82	155,809	8.00	$ 194,761	10.00 %
Tier 1 (core) capital to risk-weighted assets						
Consolidated	332,418	17.04	117,061	6.00	N/A	N/A
Bank	325,255	16.70	116,857	6.00	155,809	8.00
Common Equity Tier 1 (CET1)						
Consolidated	332,418	17.04	87,796	4.50	N/A	N/A
Bank	325,255	16.70	87,643	4.50	126,595	6.50
Tier 1 (core) capital to adjusted tangible assets						
Consolidated	332,418	10.11	131,471	4.00	N/A	N/A
Bank	325,255	9.90	131,469	4.00	164,337	5.00

Dividend Restrictions

As noted above, 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 Company's principal source of funds for dividend payments is dividends received from the Bank and banking regulations limit the dividends that may be paid. Approval by regulatory authorities is required if 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 the Bank would not be at least adequately capitalized following the distribution.

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. Also, pursuant to the terms of the subordinated note agreements, the Company may pay dividends if it is "well capitalized" as defined by regulatory guidelines.

At June 30, 2020, the Bank has the ability to pay aggregate dividends of approximately $84,386 to the Company without prior regulatory approval.

Note 15—Related Party Transactions

From time to time, the Company makes charitable contributions to a foundation for which certain members of the boards of directors of the Company and Bank, and who are also related to the Company's controlling shareholders, serve as trustees. The Company paid $150 and $225 to the foundation during the three months ended June 30, 2020 and 2019, respectively, and $375 and $450 during the six months ended June 30, 2020 and 2019, respectively.

The Bank provides monthly data processing and programming services to entities controlled by the Company's controlling shareholders. Aggregate fees received for such services amounted to $23 and $25 during the three months ended June 30, 2020 and 2019, respectively, and $50 and $52 during the six months ended June 30, 2020 and 2019, respectively.

The Company leases certain storage and office space from entities owned by the Company's controlling shareholders. Amounts paid under such leases totaled $60 and $45 during the three months ended June 30, 2020 and 2019, respectively, and $120 and $91 during the six months ended June 30, 2020 and 2019, respectively. The Company also subleases certain office space to entities owned by the Company's controlling shareholders. Amounts received under such subleases totaled $69 during both the three months ended June 30, 2020 and 2019, and $138 and $137 during the six months ended June 30, 2020 and 2019, respectively.

Note 16—Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Bank 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 and standby letters of credit which are not reflected in the condensed consolidated financial statements.

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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 Bank will 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 drawn upon. Certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Bank is required to fund the commitment. The Bank 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, 2020, outstanding commitments to make loans consisted of fixed rate loans of $26,989 with interest rates ranging from 2.5% to 4.375% and maturities ranging from 10 years to 30 years and variable rate loans of $52,125 with varying interest rates (ranging from 3.125% to 5.75% at June 30, 2020) and maturities ranging from 25 to 30 years.

Unused Lines of Credit

The Bank also issues unused lines of credit to meet customer financing needs. At June 30, 2020, the unused lines of credit include residential second mortgages of $20,312, construction loans of $189,643, commercial lines of credit of $4,049 and consumer loans of $387. These unused lines of credit consisted of fixed rate loans of $425 with interest rates ranging from 5.25% to 18.0% and maturities ranging from three months to 7 years and variable rate loans of $213,966 with varying interest rates (ranging from 3.25% to 10.0%) and maturities ranging from one month to 15 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 Bank assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The credit risk to the Bank 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 Bank 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.

The following is a summary of the total amount of unfunded commitments to extend credit and standby letters of credit outstanding at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Commitments to make loans	$ 79,114	$ 76,927
Unused lines of credit	214,391	220,553
Standby letters of credit	24	24

Legal Proceedings

The Bank is currently under formal investigation by the OCC, and continues to be subject to a publicly available formal agreement with the OCC, dated June 18, 2019 (the "OCC Agreement"), relating primarily to certain aspects of its Bank Secrecy Act/Anti-Money Laundering compliance program as well as the Bank's credit administration. The OCC Agreement generally requires that the Bank enhance its policies and procedures to ensure compliance with BSA/AML laws and regulations and ensure effective controls over residential loan underwriting. Specifically, the OCC Agreement requires the Bank to: (i) establish a compliance committee to monitor and oversee the Bank's compliance with the provisions of OCC Agreement; (ii) develop a revised customer due diligence and enhanced due diligence program; (iii) develop a revised suspicious activity monitoring program; (iv) engage an independent, third-party consultant to review and provide a written report on the Bank's suspicious activity monitoring; (v) develop revised policies and procedures to ensure effective BSA/AML model risk management for the Bank's automated suspicious activity monitoring system, which must be validated by a qualified, independent third party; (vi) ensure that the Bank's BSA Department maintains sufficient personnel; and (vii) develop revised policies and procedures to ensure effective controls over loan underwriting. In addition to these requirements, while the OCC Agreement remains in effect, the Bank is subject to certain restrictions on expansion activities, such as growth through acquisition or branching to supplement organic growth of the Bank. Further, any failure to comply with the requirements of the OCC Agreement could result in further enforcement actions, the imposition of material restrictions on the activities of the Bank, or the assessment of fines or penalties. The Bank established a Compliance Committee to monitor and assure compliance with the OCC Agreement, oversee the completion of an independent review of account and transaction activity to be conducted by a third party vendor, and engage a third party to conduct a model validation for its BSA/AML monitoring software.

The Bank is fully cooperating with the OCC investigation and implementing the items necessary to achieve compliance with the obligations in the OCC Agreement. A finding by the OCC that the Bank failed to comply with the OCC Agreement or adverse findings in the OCC investigation could result in additional regulatory scrutiny, constraints on the Bank's business, or other formal enforcement action. Any of those events could have a material adverse effect on our future operations, financial condition, growth, or other aspects of our business. The Bank has incurred significant costs in its efforts to comply with the OCC Agreement and respond to the OCC investigation, which are reflected in the Company's results of operations for the six months ended June 30, 2020.

The Bank also has received grand jury subpoenas from the United States Department of Justice (the "DOJ") beginning in 2020 requesting the production of documents and information in connection with an investigation that appears to be focused on the Bank's residential lending practices and related issues. The Bank is fully cooperating with this ongoing investigation. Adverse findings in the DOJ investigation could result in material losses due to damages, penalties, costs, and/or expenses imposed on the Company, which could have a material adverse effect on our future operations, financial condition, growth, or other aspects of our business. The Bank expects to incur significant costs in its efforts to comply with the DOJ investigation in 2020.

In addition, the Company, certain of its current and former officers and directors, and other parties have been named as defendants in a shareholder class action captioned *Oklahoma Police Pension and Retirement System v. Sterling Bancorp, Inc., et al.*, Case No. 5:20-cv-10490-JEL-EAS, filed on February 26, 2020 in the United States District Court for the Eastern District of Michigan. The plaintiffs filed an amended complaint on July 2, 2020. This action alleges violations of the federal securities laws, primarily with respect to disclosures concerning the Bank's residential lending practices that were made in the Company's registration statement and prospectus for its initial public offering, in subsequent press releases, in periodic and other filings with the SEC, and during earnings calls. The Company filed a motion to dismiss the amended complaint with the court on September 22, 2020. The Company intends to vigorously defend this and any related actions.

On December 9, 2019, the Company announced it had voluntarily suspended its Advantage Loan Program in connection with an internal review of the program (the "Internal Review"). The primary focus of the Internal Review, which has been led by outside legal counsel under the direction of a special committee of independent directors (the "Special Committee"), involved the origination of residential mortgage loans under the Advantage Loan Program and related matters. Results from the Special Committee's Internal Review have 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. As a result, the Company has permanently discontinued the Advantage Loan Program. While the Internal Review is substantially complete, the Company expects it to remain open during the pendency of the government investigations discussed herein, and it is possible additional work will be required in connection with the Internal Review.

As of December 31, 2019, the Company established a liability of $25,000 for contingent losses based on additional information obtained during the course of the Internal Review and significant judgments by management. The Company has maintained the same level of liability for contingent losses at June 30, 2020. The outcome of the pending investigations and litigation is uncertain. There can be no assurance (i) that the Company will not incur material losses due to damages, penalties, costs and/or expenses as a result of such investigations and litigation, (ii) that the accrual for contingent losses will be sufficient to cover such losses, or (iii) that such losses will not materially exceed such accrual and have a material impact on the Company's financial condition or results of operations.

In addition, on July 28, 2020, the Company received a demand letter from two law firms representing a purported stockholder of the Company alleging facts and claims substantially the same as many of the alleged facts and claims in the class action lawsuit. The demand letter requests that the board of directors take action to (1) recover damages the Company has purportedly sustained as a result of alleged breaches of fiduciary duties by certain of its officers and directors; (2) recover for the benefit of the Company the amounts by which certain of its officers and directors purportedly were unjustly enriched; and (3) correct alleged deficiencies in the Company's internal controls. The demand letter states that, if the board of directors has not taken the actions demanded within 90 days after the receipt of the letter, or in the event the board of directors refuses to take the actions demanded, the purported stockholder will commence a stockholder derivative action on behalf of the Company seeking appropriate relief. The board of directors has recently established a demand review committee to evaluate the matters raised in the demand letter and to determine the actions, if any, that should be taken by the Company with respect to those matters. The Company has responded to the demand letter advising the purported shareholder of the appointment of the demand review committee. There can be no assurance as to whether any litigation will be commenced by or against the Company with respect to the claims set forth in the demand letter or that, if any such litigation is commenced, it will not have a material impact on our financial condition or results of operations.

Mortgage Loan Repurchase Liability

During the period 2015 through 2019, the Company sold portfolio loans originated under the Advantage Loan Program to private investors in the secondary market. The Company also sells conventional residential mortgage loans (which excludes Advantage Loan Program loans) in the secondary market primarily to Federal National Mortgage Association ("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 loans and certain expenses. Historically, any repurchases due to a breach of any such representations and warranties have been de minimis.

The Bank recorded a total mortgage repurchase liability of $7,848 and $7,823 at June 30, 2020 and December 31, 2019, respectively, primarily related to probable losses on the sold Advantage Loan Program loan portfolio taking into account the results of the Internal Review. The repurchase liability is included in accrued expenses and other liabilities in the condensed consolidated balance sheets. The unpaid principal balance of residential mortgage loans sold that were subject to potential repurchase obligations for breach of these representations and warranties totaled $670,245 and $759,568 at June 30, 2020 and December 31, 2019, respectively.

The repurchase liability reflects management's estimate of losses based on a combination of factors. The Company's estimation process requires management to make subjective and complex judgements about matters that are inherently uncertain, such as future repurchase demand expectations, economic factors, and findings from the Internal Review. The actual repurchase losses could vary significantly from the recorded repurchase liability, depending on the outcome of various factors, including those previously discussed.

In May 2020, the Company negotiated the repurchases of two pools of Advantage Loan Program loans with a total outstanding unpaid principal balance of $38,704. These loans were previously sold to such third-party investors with servicing retained and were considered to be performing at the acquisition date. In connection with these repurchases, the Company recognized a loss of $136 related to fair value discount in other non-interest expense and wrote off $428 mortgage servicing rights.

To avoid the uncertainty of audits and inquiries by third-party investors in 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 sold Advantage Loan Program loans.

Note 17—Subsequent Events

Repurchases of Mortgage Loans

In July 2020, three third-party investors accepted the above mentioned offer, from which the Company repurchased three pools of Advantage Loan Program loans sold with a total outstanding unpaid principal balance of $19,251. These loans were previously sold to such third-party investors with servicing retained and were considered to be performing at the acquisition date. In connection with these repurchases, the Company recognized a loss of $135 related to fair value discount in other non-interest expense, wrote off $203 mortgage servicing rights, and charged a loss of $433 against mortgage repurchase liability.

In September 2020, one third-party investor accepted the above mentioned offer, from which the Company repurchased two pools of Advantage Loan Program loans sold with a total outstanding unpaid principal balance of $11,683. These loans were previously sold to such third-party investor with servicing retained and were considered to be performing at the acquisition date. In connection with this repurchase, the Company wrote off $158 mortgage servicing rights and charged a loss of $218 against mortgage repurchase liability.

FHLB Advances

Subsequent to June 30, 2020, loans originated under the Advantage Loan Program totaling $486,224 were withdrawn from collateral pledged on FHLB borrowings, reducing the total amount of loans pledged to $656,658. Thereby, the Bank's additional borrowing capacity from the FHLB was reduced to $80,036.

Sale of Quantum Capital Management

On October 14, 2020, QCM, LLC, doing business as Quantum Capital Management, a wholly-owned subsidiary of Quantum Fund, LLC and an indirect wholly-owned subsidiary of the Bank ("Quantum Capital Management"), entered into an Asset Purchase Agreement to sell substantially all of its assets, which consist primarily of client advisory agreements. The closing of the transaction is subject to customary closing conditions, including third-party consents, and is expected to occur before year-end. In connection with the execution of the Asset Purchase Agreement, Mr. Peter Sinatra, a member of the boards of directors of the Company and of the Bank, as well as the CEO of Quantum Capital Management, notified the Company of his resignation from the Company's and the Bank's boards of directors, effective immediately, and from all other positions with Quantum Capital Management, the Company, the Bank, and each of their subsidiaries and affiliates, effective upon the closing of the transaction.

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 ("MD&A") 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 Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on October 6, 2020.

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 & Trust, F.S.B., which we sometimes refer to as "Sterling Bank," "the Bank" or "our Bank."

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding the Company's plans, expectations, thoughts, beliefs, estimates, goals, and outlook for the future that are intended to be covered by the protections provided under the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "attribute," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "goal," "target," "outlook," "aim," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution 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.

The following factors, among others, could cause actual future results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- The result of the internal review in connection with our Advantage Loan Program and related matters;
- The impact of the permanent discontinuation of our Advantage Loan Program;
- Terminations, resignations and departures of top loan producers and other key employees;
- The results of investigations of us by the OCC, the DOJ, or other governmental agency;
- The costs of litigation, including settlements and judgments;
- Compliance with the OCC Agreement;
- New legislation, regulation, or governmental policy affecting the financial services industry;
- Adverse effects which may arise in connection with the material weaknesses in our internal control over financial reporting or our failure to promptly remediate them;

- The outbreak of the COVID-19 pandemic, or an outbreak of other highly infectious or contagious diseases;
- Market volatility;
- Potential future losses in connection with certain representations and warranties we have made with respect to mortgages that we have sold into the secondary market;
- Our ability to comply with The Nasdaq Stock Market LLC ("Nasdaq") listing requirements, including our ability to timely file our future periodic reports with the SEC;
- Our concentration in residential mortgage loans;
- Our geographic concentration of loans and operations in California;
- Strong competition within our market areas with respect to our products and pricing;
- Our ability to attract deposits and other sources of liquidity;
- The value of our mortgage servicing rights;
- Operational risks resulting from a high volume of financial transactions and increased reliance on technology;
- Failure to obtain external financing on favorable terms, or at all, in the future;
- Changes in the state of the general economy and the financial markets;
- The credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs;
- The overall quality of the composition of our loan and securities portfolios;
- Legislative and regulatory changes, including the implementation of the Dodd–Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), changes in banking, securities and tax laws and regulations and their application by our regulators and changes in the scope and cost of FDIC insurance and other coverages;
- Inflation, interest rate, market and monetary shifts, including uncertainty relating to the calculation and transition from LIBOR;
- Changes in the financial performance and/or condition of our borrowers;
- Adverse changes in securities markets, including such changes to the valuation of our securities portfolio;
- Changes in accounting policies and practices, as may be adopted by the FASB;
- Changes in estimates of future loan loss reserves based upon the periodic review thereof under relevant regulatory and accounting requirements;
- The effects of, and changes in, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System ("FRB" or "Federal Reserve");

- Tax matters, including changes in corporate tax rates and any disagreements with taxing authorities;
- Changes in consumer and business spending, borrowing and saving habits and demand for financial services in our market area;
- Fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas;
- The effect of gentrification or adverse political developments on minority and immigrant individuals, which is one of our historical markets;
- The inability of key third-party providers, customers, and counterparties to provide accurate and complete information and perform their obligations to us;
- Our operational, technological, and organizational infrastructure, including whether our enterprise risk management framework effectively mitigates risk and loss and whether we can keep pace with technological change;
- Our employees' adherence to our internal policies and procedures;
- Adverse international conditions and their effect on our customers;
- 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;
- The Seligman family's ability to influence our operations and control the outcome of matters submitted for shareholder approval;
- Our ability to continue to pay dividends; and
- Our success at managing the risks involved in the foregoing.

The foregoing factors should not be construed as an exhaustive list and should be read in conjunction with other cautionary statements that are included in the items set forth under the heading "*Risk Factors*" in our Annual Report on Form 10-K for the year ended December 31, 2019. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any 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 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 each 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.

Executive Summary

The following overview should be read in conjunction with our MD&A in its entirety.

Company Overview

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 banking services.

Historical Business Strategy

During the quarter ended June 30, 2020, we continued to pursue our historical strategy of originating residential mortgage loans both for retention in our portfolio and sale to the secondary market, as well as growing our commercial real estate and construction lending portfolios. During the year ended December 31, 2019, our Advantage Loan Program generated approximately 77% of our residential mortgage loan production. However, as discussed further below, in the fourth quarter of 2019, our board of directors became aware of significant compliance issues in connection with the origination of residential mortgage loans under the Advantage Loan Program, which ultimately led to the voluntary suspension, and then permanent discontinuation, of the Advantage Loan Program.

Formal Agreement, Internal Review and Permanent Discontinuation of Advantage Loan Program

On December 9, 2019, the Company announced it had voluntarily suspended its Advantage Loan Program in connection with an internal review of the program (the “Internal Review”). The primary focus of the Internal Review, which has been led by outside legal counsel under the direction of a special committee of independent directors (the “Special Committee”), has involved the origination of residential mortgage loans under the Advantage Loan Program and related matters. Results from the Special Committee’s Internal Review have 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. As a result, the Company has permanently discontinued the Advantage Loan Program.

In connection with the Internal Review, a significant number of officers and employees have been terminated or resigned, including the top loan producers within the Advantage Loan Program. In addition, to avoid the uncertainty of audits and inquiries by third party investors in Advantage Loan Program loans sold to the secondary market, beginning at the end of the second quarter of 2020, we commenced making offers to each of those investors to repurchase 100% of our sold Advantage Loan Program loans. While the Internal Review is substantially complete, the Company expects it to remain open during the pendency of the government investigations discussed below, and it is possible additional work will be required in connection with the Internal Review.

The Company experienced significant executive transitions in late 2019 continuing through the first half of 2020. On October 17, 2019, the Company announced the retirement of its then-Chairman and Chief Executive Officer, Gary Judd, with such retirement to be effective November 30, 2019. On October 15, 2019, the board of directors appointed Thomas Lopp, the Company’s then-President, Chief Financial Officer and Chief Operating Officer, to assume the role of Chief Executive Officer and Chairman effective upon Mr. Judd’s retirement. The board of directors also appointed Stephen Huber as Chief Financial Officer, also effective November 30, 2019. On May 7, 2020, Mr. Lopp resigned from each of his positions with the Company and the board of directors appointed Mr. Huber as interim Chief Executive Officer. On May 29, 2020, Michael Montemayor was terminated from his positions as President of Commercial and Retail Banking and Chief Lending Officer. Christine Meredith was hired by the Bank in the role of Senior Vice President and Chief Risk Officer with a starting date of February 3, 2020. Since October 1, 2019, more than 100 officers and employees have been terminated or have resigned, including more than 35 loan officers, whether in connection with the Internal Review or otherwise.

The Bank is currently under formal investigation by the OCC, is responding to grand jury subpoenas from the DOJ and continues to be subject to a publicly available formal agreement with the OCC, dated June 18, 2019 (the "OCC Agreement"), relating primarily to certain aspects of its BSA/AML compliance program as well as the Bank's credit administration. The OCC Agreement generally requires that the Bank enhance its policies and procedures to ensure compliance with BSA/AML laws and regulations and ensure effective controls over residential loan underwriting. The Bank established a Compliance Committee to monitor and assure compliance with the OCC Agreement, oversee the completion of an independent review of account and transaction activity to be conducted by a third party vendor, and engage a third party to conduct a model validation for its BSA/AML monitoring software.

The Bank is fully cooperating with the OCC investigation and implementing the items necessary to achieve compliance with the obligations in the OCC Agreement. A finding by the OCC that the Bank failed to comply with the OCC Agreement or adverse findings in the OCC investigation could result in additional regulatory scrutiny, constraints on the Bank's business, or other formal enforcement action. Any of those events could have a material adverse effect on our future operations, financial condition, growth, or other aspects of our business. The Bank has incurred significant costs in its efforts to comply with the OCC Agreement and respond to the OCC investigation, which are reflected in our results of operations for the six months ended June 30, 2020.

The Bank also has received grand jury subpoenas from the DOJ requesting the production of documents and information in connection with an investigation that appears to be focused on the Bank's residential lending practices and related issues. The Bank is fully cooperating with this ongoing investigation.

In addition, the Company, certain of its current and former officers and directors, and other parties have been named as defendants in a shareholder class action captioned *Oklahoma Police Pension and Retirement System v. Sterling Bancorp, Inc., et al.*, Case No. 5:20-cv-10490-JEL-EAS, filed on February 26, 2020 in the United States District Court for the Eastern District of Michigan. The plaintiffs filed an amended complaint on July 2, 2020. This action alleges violations of the federal securities laws, primarily with respect to disclosures concerning the Bank's residential lending practices that were made in the Company's registration statement and prospectus for its initial public offering, in subsequent press releases, in periodic and other filings with the SEC, and during earnings calls. The Company filed a motion to dismiss the amended complaint with the court on September 22, 2020. The Company intends to vigorously defend this and any related actions.

The Company has incurred significant legal expenses in 2020 in connection with the government investigations and in defending the litigation. For further information regarding these matters, see "Part II, Item 1. Legal Proceedings."

The Strategy for 2020 and Beyond

Effective June 3, 2020, the Company and the Bank hired Thomas M. O'Brien as Chairman, President and Chief Executive Officer of the Company and the Bank, respectively. Prior to being hired, Mr. O'Brien provided consulting services to the board of directors of the Bank under a consulting agreement since March 2020. An accomplished leader in the financial services industry with over 44 years of industry experience, Mr. O'Brien will report to the boards of directors of the Company and the Bank. Mr. Huber continued in his role as Chief Financial Officer following the appointment of Mr. O'Brien.

The current focus of the Company is to work hard to resolve its outstanding compliance and regulatory issues, government investigations and third party litigation, develop a strong culture of compliance, re-establish strong credit metrics for new lending initiatives, hire new key business development and operations personnel, and establish a new path forward to service our customers' needs and build investor confidence. This renewal effort will be complicated by the impact of COVID-19 and its impact on the national economy and the markets in which we focus our products and services. While the Company will continue to work on initiatives to diversify its overall loan production and to review new residential loan products, the implementation of any new loan products takes time and may be subject to the prior review and approval of applicable bank regulatory authorities. Accordingly, the permanent discontinuation of the Advantage Loan Program will likely have an adverse impact on our results of operations as repayments from our residential loan portfolio will need to be invested in lower yielding assets until new loan programs can commence.

Impact of COVID-19

The COVID-19 pandemic, which was declared a national emergency in the United States in March 2020, continues to create extensive disruptions to the global economy and financial markets and to businesses and the lives of individuals throughout the world. Federal and state governments are taking unprecedented actions to contain the spread of the disease, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief to businesses and individuals impacted by the pandemic. Although in various locations certain activity restrictions have been relaxed with some level of success, in many states and localities the number of individuals diagnosed with COVID-19 has increased significantly, which is causing a freezing or, in certain cases, a reversal of previously announced relaxation of activity restrictions and is prompting the need for additional aid and other forms of relief.

The governmental and social response to the COVID-19 pandemic has resulted in an unprecedented slow-down in economic activity and a related increase in unemployment. Since the outbreak of COVID-19 in the United States, more than 50 million people nationwide have filed claims for unemployment, and stock markets have declined in value and in particular, bank stocks have significantly declined in value. As of the end of June 2020, the national unemployment rate was 11.1%. Although an improvement from the 14.7% national unemployment rate observed in April 2020, the current rate of unemployment is substantially higher than the 3.6% national unemployment rate observed in January 2020 prior to the outbreak of COVID-19 in the United States. Further, the Federal Pandemic Unemployment Compensation, which under Section 2104 of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) allows for additional payments to covered individuals of up to $600 per week, expired as of July 31, 2020 and it is uncertain whether this benefit will be renewed by Congress.

The COVID-19 pandemic, and related efforts to contain it, have caused significant disruptions in the functioning of the financial markets and have increased economic and market uncertainty and volatility. To help address these issues, the Federal Open Market Committee (“FOMC”) has reduced the benchmark federal funds rate to a target range of 0% to 0.25%, and the yields on 10 and 30-year treasury notes have declined to historic lows. At its June and July meetings, the FOMC continued its commitment to this approach, indicating that the target federal funds rate would remain at current levels until the economy is in position to achieve the FOMC’s maximum-employment and price-stability goals. In addition, in order to support the flow of credit to households and businesses, the FRB indicated that it will continue to increase its holdings of U.S. Treasury securities and agency residential and commercial mortgage-backed securities to sustain proper functioning of the financial markets.

Congress and various state governments and federal agencies have taken actions to require lenders to provide forbearance and other relief to borrowers (e.g., waiving late payment and other fees). The federal banking agencies have encouraged financial institutions to prudently work with affected borrowers and recently passed legislation has provided relief from reporting loans as troubled debt restructurings due to modifications related to the COVID-19 pandemic. More specifically, through Section 4022 of the CARES Act, Congress provided relief to borrowers with federally-backed one-to-four family mortgage loans experiencing a financial hardship due to COVID-19 by allowing such borrowers to request forbearance, regardless of delinquency status, for up to 360 days. Such relief will be available until the earlier of December 31, 2020 and the date of termination of the national emergency declaration. Section 4022 of the CARES Act also prohibits servicers of federally-backed mortgage loans from initiating foreclosures during the 60-day period beginning March 18, 2020. In addition, under Section 4023 of the CARES Act, until the earlier of December 31, 2020 and the date of termination of the national emergency declaration, borrowers with federally-backed multifamily mortgage loans whose payments were current as of February 1, 2020, but who have since experienced financial hardship due to COVID-19, may request a forbearance for up to 90 days. Borrowers receiving such forbearance may not evict or charge late fees to tenants for its duration.

Additionally, in many states in which we do business or in which our borrowers and loan collateral are located, temporary bans on evictions and foreclosures have been enacted through a mix of executive orders, regulations, and judicial orders. Certain such relief orders have since expired, although several states, including New York and New Jersey, have extended their temporary orders and may continue to do so indefinitely. In addition, in New York, Governor Andrew Cuomo signed legislation on June 17, 2020 that expands mortgage forbearance available for those experiencing financial hardship during the crisis caused by the COVID-19 pandemic. The legislation applies to those who have mortgages with state-regulated financial institutions and is intended to be an expansion of the CARES Act's mortgage forbearance provisions. The legislation provides up to one year of forbearance if the borrower's hardship persists and provides flexible payment options.

Certain industries have been particularly hard-hit by the COVID-19 pandemic, including the travel and hospitality industry, the restaurant industry and the retail industry. In addition, the spread of COVID-19 has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. We have many employees working remotely and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners.

We continue to actively monitor developments related to COVID-19 and its impact to our business, customers, employees, counterparties, vendors, and service providers. During the first half of 2020, the most notable financial impacts to our results of operations was a higher provision for loan losses primarily reflecting the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic.

In response to the COVID-19 pandemic, we have taken several actions to offer various forms of support to our customers and employees that have experienced impacts from this development. We are actively working with customers impacted by the economic downturn, offering payment deferrals and other loan modifications. Our COVID-19 Hardship Forbearance Program provides a 120-day deferral of principal and interest payments for residential mortgages. Interest will continue to accrue at the note rate. At the end of the forbearance period, the borrower's accrued but unpaid interest will be added to their outstanding principal balance while keeping the principal and interest payment at the amount determined in accordance with the terms of their note, thus extending the loan's maturity date. The terms for commercial loan forbearances are reviewed and determined on a case by case basis. As of June 30, 2020, the Company had approximately 210 loans in forbearance status with an aggregate loan balance of $125.8 million. At June 30, 2020, residential real estate loans in forbearance status totaled $118.8 million, and commercial real estate loans in forbearance status totaled $7.0 million, with a concentration in lodging. We continue to have active dialogue with customers on deferrals. As of September 30, 2020, the Company had approved forbearance requests on 189 loans. Of these, 116 loans totaling $69,828 have completed the agreed-upon deferment period and have returned to normal debt service. There are 73 loans that remain in payment deferral totaling $54,413.

During this volatile time, we remain focused on our capital and liquidity. Our regulatory capital ratios remained well above the levels required to be considered well capitalized for regulatory purposes with a Common Equity Tier 1 ratio for the Company of 17.27% and a ratio of Tier 1 Capital to adjusted tangible assets of 9.32%. See "Liquidity and Capital Resources." We have a liquid balance sheet, with access to funding sources, as necessary. As a mortgage servicer, we are required to advance principal and interest on loans under forbearance for a period of up to four months and tax and insurance payments until the owners of the loans make us whole. Although the servicing advances for loans in forbearance have not been significant, should the demand for loan forbearance continue to increase as a result of the effects of COVID-19, our liquidity position could be negatively impacted.

The duration and severity of the effect of COVID-19 on economic, market and business conditions remain uncertain. We are subject to heightened business, operational, market, credit and other risks related to the COVID-19 pandemic, which may have an adverse effect on our business, financial condition and results of operations.

Overview of Quarterly Performance

As of June 30, 2020, the Company had total consolidated assets of $3.74 billion, total consolidated deposits of $2.89 billion and total consolidated shareholders' equity of $331.4 million. Cash and due from banks increased to $623.4 million at June 30, 2020 from $77.8 million at December 31, 2019, reflecting increased cash flows from loan payments and the permanent discontinuation of our Advantage Loan Program combined with the lack of an alternative loan product to effectively reinvest such proceeds during the quarter. As a result, our total loan portfolio decreased $149.1 million from $2.91 billion at December 31, 2019 to $2.76 billion at June 30, 2020. In addition, investment securities increased as we were able to reinvest a portion of our excess cash flows. The resulting excess liquidity was retained to prepare for potential Advantage Loan Program repurchase requests and compensate for the Bank's reduced borrowing capacity from the FHLB as a result of the reduction in collateral pledged, as well as to prepare for additional uncertainties related to the ongoing examinations and investigations.

Our net income decreased $10.6 million, or 79%, to $2.9 million for the three months ended June 30, 2020, primarily driven by significantly heightened costs of regulatory compliance which have continued into 2020 and increased provision for loan losses due to the impact of COVID-19 and risk-rating downgrades of certain residential, commercial real estate and construction loans, as well as a decrease in gain on sale of portfolio loans due to the absence of portfolio loan sales during the quarter. Our net interest margin continued its decline to 3.08% for the three months ended June 30, 2020 from 3.84% for the same period in 2019, reflecting the prevailing lower interest rate environment in which we were originating new portfolio loans and the reinvestment of substantial loan payments into lower-yielding interest-earning assets.

We realized net income of $2.9 million for the three months ended June 30, 2020, compared to net income of $13.4 million for the three months ended June 30, 2019, and we incurred a net loss of $(1.2) million for the six months ended June 30, 2020, compared to a net income of $29.1 million for the six months ended June 30, 2019. The decreases in net income for the three and six month periods were primarily driven by significantly increased professional fees associated with our renewed efforts of achieving compliance with the Formal Agreement and our undergoing other enhancements to our regulatory compliance framework, in additional to the professional fees related to the government investigations and litigation and increased provision for loan losses due to the impact of COVID-19 and risk-rating downgrades of certain residential, commercial real estate and construction loans, as well as a decrease in gain on sale of portfolio loans due to the absence of portfolio loan sales during the quarter. The decreases in net income were partially offset by an income tax benefit as a result of decreased pre-tax income. Our net interest margin continued its decline to 3.31% for the six months ended June 30, 2020 from 3.85% for the same period in 2019, reflecting the prevailing lower interest rate environment in which we were originating new portfolio loans and the reinvestment of substantial loan payments into lower-yielding interest-earning assets.

Subsequent Events

On October 14, 2020, Quantum Capital Management entered into an Asset Purchase Agreement to sell substantially all of its assets, which consist primarily of client advisory agreements. The closing of the transaction is subject to customary closing conditions, including third-party consents, and is expected to occur before year-end. In connection with the execution of the Asset Purchase Agreement, Mr. Peter Sinatra, a member of the boards of directors of the Company and of the Bank, as well as the CEO of Quantum Capital Management, notified the Company of his resignation from the Company's and the Bank's boards of directors, effective immediately, and from all other positions with Quantum Capital Management, the Company, the Bank, and each of their subsidiaries and affiliates, effective upon the closing of the transaction.

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, 2020, there were no significant changes to our accounting policies that we believe are critical to an understanding of 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 Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on October 6, 2020.

Discussion and Analysis of Financial Condition

The Company's total assets were $3.74 billion at June 30, 2020 compared to $3.24 billion at December 31, 2019. Total loans, net of allowance for loan losses, decreased slightly to $2.72 billion at June 30, 2020 as compared to $2.89 billion at December 31, 2019. The investment securities portfolio increased $105.2 million, or 69%, to $257.7 million at June 30, 2020 from $152.5 million at December 31, 2019. Cash and due from banks increased $545.6, or 701%, to $623.4 million at June 30, 2020 from $77.8 million at December 31, 2019. Deposits increased $396.6 million, or 16%, to $2.89 billion at June 30, 2020. Borrowings, excluding subordinated notes, increased $100.0 million, or 44%, to $329.0 million at June 30, 2020.

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, 2020		At December 31, 2019	
	Amount	%	Amount	%
	(Dollars in thousands)			
Real estate:				
Residential real estate	$ 2,280,473	82 %	$ 2,476,866	85 %
Commercial real estate	265,068	10 %	240,081	8 %
Construction	201,084	7 %	178,376	6 %
Total real estate	2,746,625	99 %	2,895,323	99 %
Commercial lines of credit	17,510	1 %	17,903	1 %
Other consumer	20	— %	34	— %
Total loans	2,764,155	100 %	2,913,260	100 %
Allowance for loan losses	(46,931)		(21,730)	
Loans, net	$ 2,717,224		$ 2,891,530	

The following table sets forth our fixed and adjustable-rate loans in our loan portfolio at June 30, 2020:

	Fixed	Adjustable	Total
		(In thousands)	
Real estate:			
Residential real estate	$ 35,329	$ 2,245,144	$ 2,280,473
Commercial real estate	45,472	219,596	265,068
Construction	—	201,084	201,084
Commercial lines of credit	302	17,208	17,510
Other consumer	20	—	20
Total	$ 81,123	$ 2,683,302	$ 2,764,155

The table set forth below contains the repricing dates of adjustable rate loans included within our loan portfolio as of June 30, 2020:

June 30, 2020	Residential Real Estate	Commercial Real Estate	Construction	Commercial Lines of Credit	Other Consumer	Total
			(In thousands)			
Amounts to adjust in:						
6 months or less	$ 366,785	$ 25,597	$ 201,084	$ 17,208	$ —	$ 610,674
More than 6 months through 12 months	433,653	23,381	—	—	—	457,034
More than 12 months through 24 months	549,248	24,030	—	—	—	573,278
More than 24 months through 36 months	408,764	46,679	—	—	—	455,443
More than 36 months through 60 months	427,489	99,909	—	—	—	527,398
More than 60 months	59,205	—	—	—	—	59,205
Fixed to Maturity	35,329	45,472	—	302	20	81,123
Total	$ 2,280,473	$ 265,068	$ 201,084	$ 17,510	$ 20	$ 2,764,155

At June 30, 2020, $415.2 million, or 15.5%, of our adjustable interest rate loans were at their interest rate floor.

Nonperforming Assets

Nonperforming assets include loans that are 90 or more days past due or on nonaccrual status, including troubled debt restructurings and other loan collateral acquired through foreclosure and repossession. Loans 90 days or greater past due may remain on an accrual basis if adequately collateralized and in the process of collection. At June 30, 2020 and December 31, 2019, we had $48 thousand and $50 thousand, respectively, of accruing loans past due 90 days, consisting primarily of residential real estate loans. 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.

Troubled debt restructurings are modified loans in which a borrower demonstrates financial difficulties and for which a concession has been granted. At June 30, 2020 and December 31, 2019, we had troubled debt restructuring loans of $5.4 million and $138 thousand, respectively, in nonaccrual status.

The following table sets forth information regarding our nonperforming assets at the dates indicated. The table does not include CARES Act loan modifications.

	At June 30, 2020	At December 31, 2019
	(Dollars in thousands)	
Nonaccrual loans [1]:		
Residential real estate	$ 37,435	$ 14,692
Commercial real estate	3,537	40
Construction	12,054	—
Commercial lines of credit	1,186	—
Other consumer	—	—
Total nonaccrual loans	54,212	14,732
Loans past due 90 days and still accruing	48	50
Troubled debt restructurings [2]	23,017	13,570
Total nonperforming assets	$ 77,277	$ 28,352
Total loans	$ 2,764,155	$ 2,913,260
Total assets	$ 3,738,503	$ 3,244,884
Total nonaccrual loans to total loans	1.96 %	0.51 %
Total nonperforming assets to total assets	2.07 %	0.87 %

(1) Loans are presented before the allowance for loan losses.
(2) Troubled debt restructurings exclude those loans presented above as nonaccrual or past 90 days and still accruing.

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

	June 30, 2020			December 31, 2019		
	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	$ 49,203	$ 11,891	$ 37,483	$ 36,209	$ 5,407	$ 14,742
Commercial real estate	9,451	9,561	3,537	5,605	—	40
Construction	—	10,579	12,054	15,008	—	—
Commercial lines of credit	—	—	1,186	1,249	—	—
Other consumer	—	—	—	—	—	—
Total delinquent loans	$ 58,654	$ 32,031	$ 54,260	$ 58,071	$ 5,407	$ 14,782

Delinquent loans increased to $144.9 million, or 5% of total loans at June 30, 2020 compared to $78.3 million, or 3% of total loans at December 31, 2019. The increase is attributable to $42.2 million increase in residential real estate loans, a portion of which had inquired about a COVID-related forbearance but did not follow up in order to execute the forbearance. Commercial real estate loans increased $16.9 million, primarily due to $15.3 million increase in delinquent hotel/single-room occupancy properties. Construction loans increased $7.6 million due to matured loans.

Allowance for Loan Losses

The allowance for loan losses is 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 is based on management's assessment of various factors affecting the loan portfolio, including portfolio composition, delinquent and nonaccrual loans, national and local business conditions, loss experience, and an overall evaluation of the quality of the underlying collateral.

The following table sets forth activity in the allowance for loan losses for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Allowance for loan losses at beginning of period	$ 42,613	$ 20,698	$ 21,730	$ 21,850
Charge offs:				
Residential real estate	—	—	—	—
Commercial real estate	—	—	—	—
Construction	—	—	—	—
Commercial lines of credit	—	—	—	(176)
Other consumer	—	—	—	—
Total charge offs	—	—	—	(176)
Recoveries:				
Residential real estate	2	8	12	13
Commercial real estate	17	31	36	62
Construction	2	1	3	3
Commercial lines of credit	—	—	—	—
Other consumer	—	—	—	—
Total recoveries	21	40	51	78
Net (charge offs) recoveries	21	40	51	(98)
Provision (recovery) for loan losses	4,297	180	25,150	(834)
Allowance for loan losses at end of period	$ 46,931	$ 20,918	$ 46,931	$ 20,918
Nonperforming loans and troubled debt restructurings at end of period	$ 77,277	$ 12,168	$ 77,277	$ 12,168
Total loans outstanding at end of period	$ 2,764,155	$ 2,945,731	$ 2,764,155	$ 2,945,731
Average loans outstanding during period	$ 2,827,133	$ 2,994,142	$ 2,848,923	$ 2,968,345
Allowance for loan losses to nonperforming loans and troubled debt restructurings	61 %	172 %	61 %	172 %
Allowance for loan losses to total loans at end of period	1.70 %	0.71 %	1.70 %	0.71 %
Net charge offs (recoveries) to average loans outstanding during the period	0.00 %	0.00 %	0.00 %	0.00 %

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. Loans classified as Substandard, Doubtful and Special Mention were as follows:

	June 30, 2020	December 31, 2019
	(Dollars in thousands)	
Special Mention	$ 38,662	$ 44,247
Substandard	151,440	46,875
Doubtful	362	455
Total	$ 190,464	$ 91,577

Total special mention, substandard and doubtful loans were $190.5 million, or 6.89% of total loans, at June 30, 2020, compared to $91.6 million, or 3.14% of total loans, at December 31, 2019. The increase in substandard loans was primarily attributable to 17 commercial real estate loans totaling $65.0 million, seven construction loans totaling $21.2 million and one commercial lines of credit of $1.2 million being downgraded, and 42 residential loans totaling $27.5 million becoming 90 days or more past due, partially offset by $5.8 million of loans paid in full. Commercial real estate loans and construction loans secured by multi-family or hotel/single-room occupancy hotel properties accounted for $63.3 million of the increase of substandard loans as these industries were highly impacted by COVID-19.

At June 30, 2020, our impaired loans increased to $39.9 million from $19.8 million at December 31, 2019 primarily due to four construction loans totaling $15.1 million, one commercial real estate loan of $3.5 million, and two commercial lines of credit totaling $1.2 million being added to impaired status. Currently, the Bank estimates no additional allowance for loan losses related to these newly added impaired loans is required due to collateral coverage.

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category. The allowance for loan 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 loan losses to absorb losses in other categories.

	At June 30, 2020		At December 31, 2019	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Residential real estate	$ 18,812	82 %	$ 12,336	85 %
Commercial real estate	15,770	10 %	5,243	8 %
Construction	11,998	7 %	3,822	6 %
Commercial lines of credit	350	1 %	328	1 %
Other consumer	1	— %	1	— %
Unallocated	—	N/A	—	N/A
Total	$ 46,931	100 %	$ 21,730	100 %

The allowance for loan losses as a percentage of loans was 1.70% and 0.75% as of June 30, 2020 and December 31, 2019, respectively. The total allowance for loan losses increased to $46.9 million from $21.7 million as of December 31, 2019 as we recorded a $25.2 million provision for loan losses which primarily reflected the estimated impact from the COVID-19 outbreak as well as the $98.9 million increase in special mention, substandard and doubtful loans.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with generally accepted accounting principles in the United States of America, there can be no assurance that regulators, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

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. We have increased our debt securities portfolio in order to maintain our on-hand liquidity target levels.

	At June 30, 2020		At December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
U.S. Treasury & Agency securities	$ 89,984	$ 90,593	$ 122,634	$ 122,803
Mortgage-backed securities	29,330	29,547	23,028	23,104
Collateralized mortgage obligations	131,973	132,028	1,138	1,183
Collateralized debt obligations	215	184	216	199
Total	$ 251,502	$ 252,352	$ 147,016	$ 147,289

At June 30, 2020 and December 31, 2019, we had no investments in a single company or entity, other than the U.S. government and government agency securities, with an aggregate book value in excess of 10% of our total shareholders' equity.

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. In estimating other-than-temporary impairment, we consider many factors including: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether we have the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through income. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) other-than-temporary impairment related to credit loss, which must be recognized in the condensed consolidated statements of income and (2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The assessment of whether any other than temporary decline exists may involve a high degree of subjectivity and judgment and is based on the information available to management at a point in time. We evaluate debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

At June 30, 2020, gross unrealized losses on debt securities totaled $492 thousand. We do not consider the debt securities to be other-than-temporarily impaired at June 30, 2020, since (i) the decline in fair value is attributable to changes in interest rates and illiquidity, not credit quality, (ii) we do not have the intent to sell the debt securities and (iii) it is likely that we will not be required to sell the debt securities before their anticipated recovery.

The Company's 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 Pacific Coast Banker's Bank, a thinly traded, restricted stock. At June 30, 2020 and December 31, 2019, equity securities totaled $5.4 million and $5.3 million, respectively.

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.

Total deposits were $2.89 billion at June 30, 2020, compared to $2.50 billion at December 31, 2019. The increase was primarily attributable to a $358.8 million increase in our retail time deposits, and a $67.8 million increase in our brokered deposits, partially offset by a $25.0 million decrease in our money market, savings and NOW accounts and a $4.8 million decrease in noninterest-bearing deposits. The additional brokered deposits were obtained during the six months ended June 30, 2020 to build liquidity at favorable rates.

Borrowings

At June 30, 2020, we had the ability to borrow a total of $799.0 million from the FHLB, which includes an available line of credit of $50.0 million. We also had available unsecured credit lines with additional banks totaling $100.0 million. At June 30, 2020, outstanding FHLB borrowings totaled $329.0 million, and there were no amounts outstanding on lines of credit held by other banks. In addition, at June 30, 2020, we had $65.0 million in principal amount of subordinated notes outstanding that are due April 15, 2026 but may be redeemed by us, in whole or in part, on or after April 14, 2021. Subsequent to June 30, 2020, we reduced the loans pledged as collateral on FHLB borrowings, thereby reducing our ability to borrow from the FHLB to $459.0 million. This reduction in collateral reflects the results of the Internal Review.

In addition to deposits, we use short-term borrowings, such as FHLB advances and a FHLB overdraft credit line, as a source of funds to meet the daily liquidity needs of our customers and fund growth in earning assets. Our short-term

FHLB advances consist primarily of advances of funds for one or two week periods. There were no FHLB line of credit, or short-term FHLB advances outstanding at the end of the period.

Shareholders' Equity

Total shareholders' equity was $331.4 million at June 30, 2020, a decrease of $1.2 million from December 31, 2019. The decrease was primarily a result of net loss of $1.2 million for the six months ended June 30, 2020. During the six months ended June 30, 2020, we repurchased 10,912 shares of our common stock at a total cost of $82 thousand pursuant to a share repurchase program authorized by the board of directors in late 2018.

Results of Operations for the Three and Six Months Ended June 30, 2020 and 2019

General

Net income was $2.9 million for the three months ended June 30, 2020, compared to $13.4 million for the same period in 2019, a decrease of $10.6 million. The decrease in net income for the three months ended June 30, 2020 was primarily attributable to an increase in non-interest expense, an increase in provision for loan losses, a decrease in net interest income, and a decrease in gain on sale of portfolio loans, which were partly offset by lower income tax expense. The increase in non-interest expense was due primarily to an increase in professional fees.

We incurred a net loss of $1.2 million for the six months ended June 30, 2020, compared to a net income of $29.1 million for the same period in 2019, a decrease of $30.3 million. The decrease in net income for the six months ended June 30, 2020 was primarily attributable to an increase in provision for loan losses, an increase in non-interest expense, a decrease in net interest income, and a decrease in gain on sale of portfolio loans. The increase in non-interest expense was due primarily to an increase in professional fees. The decrease in net income was partially offset by an income tax benefit as a result of the decrease in pre-tax income.

Average Balance Sheet and Related Yields and Rates

The following tables present 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, 2020 and 2019. 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						As of and for the Six Months Ended					
	June 30, 2020			June 30, 2019			June 30, 2020			June 30, 2019		
	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]	$ 2,827,131	$ 37,501	5.31 %	$ 2,994,142	$ 43,301	5.78 %	$ 2,848,923	77,026	5.41 %	$ 2,968,345	$ 85,023	5.73 %
Securities, includes restricted stock[2]	226,497	1,037	1.83 %	174,823	1,272	2.91 %	200,649	2,071	2.06 %	172,483	2,499	2.90 %
Other interest-earning assets	459,222	141	0.12 %	28,794	216	3.00 %	313,128	575	0.37 %	30,037	452	3.01 %
Total interest-earning assets	3,512,850	38,679	4.41 %	3,197,759	44,789	5.60 %	3,362,700	79,672	4.74 %	3,170,865	87,974	5.55 %
Noninterest-earning assets												
Cash and due from banks	13,842			10,594			11,673			10,826		
Other assets	58,008			73,614			66,239			73,373		
Total assets	$ 3,584,700			$ 3,281,967			$ 3,440,612			$ 3,255,064		
Interest-bearing liabilities												
Money Market, Savings and NOW	$ 1,215,610	$ 2,258	0.75 %	$ 1,356,200	$ 4,961	1.47 %	$ 1,236,443	5,565	0.91 %	$ 1,414,839	$ 10,339	1.47 %
Time deposits	1,463,806	7,318	2.01 %	1,044,388	6,563	2.52 %	1,318,750	14,375	2.20 %	984,027	11,841	2.43 %
Total interest-bearing deposits	2,679,416	9,576	1.43 %	2,400,588	11,524	1.93 %	2,555,193	19,940	1.57 %	2,398,866	22,180	1.86 %
FHLB borrowings	329,002	877	1.05 %	323,583	1,375	1.68 %	298,235	1,687	1.13 %	296,227	2,430	1.63 %
Subordinated notes, net	65,235	1,178	7.22 %	65,079	1,175	7.22 %	65,214	2,355	7.22 %	65,061	2,349	7.22 %
Total borrowings	394,237	2,055	2.06 %	388,662	2,550	2.60 %	363,449	4,042	2.21 %	361,288	4,779	2.63 %
Total interest-bearing liabilities	3,073,653	11,631	1.52 %	2,789,250	14,074	2.02 %	2,918,642	23,982	1.66 %	2,760,154	26,959	1.97 %
Noninterest-bearing liabilities												
Demand deposits	69,962			71,277			72,918			72,414		
Other liabilities	106,564			75,634			111,192			79,467		
Shareholders' equity	334,521			345,806			337,860			343,029		
Total liabilities and shareholders' equity	$ 3,584,700			$ 3,281,967			$ 3,440,612			$ 3,255,064		
Net interest income and spread		$ 27,048	2.89 %		$ 30,715	3.58 %		$ 55,690	3.08 %		$ 61,015	3.58 %
Net interest margin			3.08 %			3.84 %			3.31 %			3.85 %

(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 equivalent 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 year'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, 2020 vs. 2019			Six Months Ended June 30, 2020 vs. 2019		
	Increase (Decrease) due to		Total Increase	Increase (Decrease) due to		Total Increase
	Volume	Rate		Volume	Rate	
	(Dollars in thousands)					
Change in interest income:						
Loans	$ (2,335)	$ (3,465)	$ (5,800)	$ (3,340)	$ (4,657)	$ (7,997)
Securities, includes restricted stock	237	(472)	(235)	562	(990)	(428)
Other interest-earning assets	132	(207)	(75)	136	(13)	123
Total change in interest income	(1,966)	(4,144)	(6,110)	(2,642)	(5,660)	(8,302)
Change in interest expense:						
Money Markets, Savings and NOW	(470)	(2,233)	(2,703)	(1,180)	(3,594)	(4,774)
Time deposits	2,097	(1,342)	755	3,504	(970)	2,534
Total interest-bearing deposits	1,627	(3,575)	(1,948)	2,324	(4,564)	(2,240)
FHLB borrowings	14	(512)	(498)	17	(760)	(743)
Subordinated notes, net	3	—	3	6	—	6
Total change in interest expense	1,644	(4,087)	(2,443)	2,347	(5,324)	(2,977)
Change in net interest income	$ (3,610)	$ (57)	$ (3,667)	$ (4,989)	$ (336)	$ (5,325)

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.

Net interest income was $27.0 million for the three months ended June 30, 2020, a decrease of $3.7 million, or 12%, from the same period in 2019.

Interest income was $38.7 million for the three months ended June 30, 2020, a decrease of $6.1 million, or 14%, from the same period in 2019. The decrease was due primarily to the significant increase in lower-yielding liquid assets as a result of the permanent discontinuation of the Advantage Loan Program and the resultant reduction in loan originations. The average balance of our interest-earning liquid assets was $459.2 million for the three months ended June 30, 2020 as compared to $28.8 million for the three months ended June 30, 2019. These assets had an average yield of 0.12% for the three months ended June 30, 2020. In addition, the decline in interest income also reflects a decline of 119 basis points in the average yield on our interest-earning assets to 4.41% during the three months ended June 30, 2020, reflecting a general decline in market interest rates as well as the impact of the growth in our low-yielding liquid assets.

Our average balance of loans decreased $167.0 million, or 6%, to $2.83 billion for the three months ended June 30, 2020 as repayments exceeded new loan production. Our average yield on loans decreased 47 basis points to 5.31%. The yield on our loan portfolio decreased primarily due to our variable rate loans resetting at lower rates under the lower rate environment.

The impact of the decline in interest income was partially offset by the decline in interest expense. Interest expense was $11.6 million for the three months ended June 30, 2020, a decrease of $2.4 million, or 17%, from the same period in 2019. The decrease was due primarily to rate decrease, reflecting the lower interest rate environment in 2020. Our average rate paid on interest-bearing liabilities decreased 50 basis points to 1.52%, partially offset by an increase in the average balance of interest-bearing liabilities.

Our average balance of interest-bearing deposits increased $278.8 million, or 12%, to $2.68 billion for the three months ended June 30, 2020. Our average rate paid on interest-bearing deposits decreased 50 basis points to 1.43%. The rates on interest-bearing deposits were adjusted in response to changes in market rates paid by our competitors. We continue to experience shifting of deposits from lower-yielding money market, savings and NOW accounts to higher-yielding time deposits, partially offsetting the lower market rates.

Net interest income was $55.7 million for the six months ended June 30, 2020, a decrease of $5.3 million, or 9%, from the same period in 2019.

Interest income was $79.7 million for the six months ended June 30, 2020, a decrease of $8.3 million, or 9%, from the same period in 2019. The decrease was due primarily to yield decrease. Our average yield on interest-earning assets decreased 81 basis points to 4.74% during the six months ended June 30, 2020.

Our average balance of loans decreased $119.4 million, or 4%, to $2.85 billion for the six months ended June 30, 2020 as repayments exceeded new loan production. Our average yield on loans decreased 32 basis points to 5.41%. The yield on our loan portfolio decreased primarily due to our variable rate loans resetting at lower rates under the lower rate environment and new loans originated at lower rates than the loans that paid off.

Interest expense was $24.0 million for the six months ended June 30, 2020, a decrease of $3.0 million, or 11%, from the same period in 2019. The decrease was due primarily to rate decrease. Our average rate paid on interest-bearing liabilities decreased 31 basis points to 1.66%, partially offset by an increase in the average balance of interest-bearing liabilities.

Our average balance of interest-bearing deposits increased $156.3 million, or 7%, to $2.56 billion for the six months ended June 30, 2020. Our average rate paid on interest-bearing deposits decreased 29 basis points to 1.57%. The rates on interest-bearing deposits were adjusted in response to changes in market rates paid by our competitors. We continued to experience shifting of deposits from lower-yielding money market, savings and NOW accounts to higher-yielding time deposits.

Net Interest Margin and Interest Rate Spread

Net interest margin was 3.08% for the three months ended June 30, 2020, down 76 basis points from the same period in 2019. The interest rate spread was 2.89% for the three months ended June 30, 2020, down 69 basis points from the same period in 2019. Our net interest margin and interest rate spread were negatively impacted during the three months ended June 30, 2020 by the accumulation of liquidity on our balance sheet which resulted in an increase in the relative proportion of our lower-yielding interest-earning assets (primarily excess deposits held in an interest-bearing account at the Federal Reserve) as part of our strategy to increase liquidity in order to reduce our risk profile. The declines in net interest margin and interest rate spread were also due to lower yields in our loan portfolios, partially offset by lower rates paid on our interest-bearing deposits, a reflection of the low interest rate environment in 2020.

Net interest margin was 3.31% for the six months ended June 30, 2020, down 54 basis points from the same period in 2019. The interest rate spread was 3.08% for the six months ended June 30, 2020, down 50 basis points from the same period in 2019. Our net interest margin and interest rate spread were negatively impacted during the six months ended June 30, 2020 by the accumulation of liquidity on our balance sheet which resulted in an increase in the relative proportion of our lower-yielding interest-earning assets (primarily excess deposits held in an interest-bearing account at the Federal Reserve) as part of our strategy to increase liquidity in order to reduce our risk profile. The declines in net interest margin and interest rate spread were also due to lower yields in our loan portfolios, partially offset by lower rates paid on our interest-bearing deposits, a reflection of the low interest rate environment in 2020.

Provision (recovery) for Loan Losses

We recorded a provision for loan losses of $4.3 million during the three months ended June 30, 2020, an increase of $4.1 million from the same period in 2019. We recorded a provision for loan losses of $25.2 million during the six months ended June 30, 2020, compared to a recovery for loan losses of $0.8 million during the same period in 2019. The increase in the provision for loan losses for each of the three- and the six-month periods was primarily attributable to qualitative components established in our allowance for loan losses methodology in response to the economic impact from the COVID-19 pandemic that has led to increased unemployment and deterioration in the overall macro-economic environment. We continue to monitor the effect unemployment will have on our borrowers and the broader market, including the longer-term impact to the relative values of residential and commercial properties. The provision for loan losses also reflects the required allowance for loan losses on the increase in special mention, substandard and doubtful loans of $65.6 million during the three months ended June 30, 2020 and $101.1 million during the six months ended June 30, 2020.

The provision for loan losses was recorded with the objective of aligning our allowance for loan losses with our current estimates of loss in the loan portfolio. The allowance for loan losses was $46.9 million, or 1.70% of total loans at June 30, 2020, compared to $21.7 million, or 0.75% of total loans, at December 31, 2019.

Non-interest Income

Non-interest income information is as follows:

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2020	2019	Amount	Percent	2020	2019	Amount	Percent
				(Dollars in thousands)				
Service charges and fees	$ 95	$ 112	$ (17)	(15)%	$ 212	$ 216	$ (4)	(2)%
Investment management and advisory fees	255	425	(170)	(40)%	568	765	(197)	(26)%
Loss on sale of investment securities	(34)	—	(34)	N/M	199	—	199	N/M
Gain on sale of mortgage loans held for sale	751	142	609	429 %	1,020	180	840	467 %
Gain on sale of portfolio loans	—	1,860	(1,860)	(100)%	—	4,302	(4,302)	(100)%
Unrealized gains on equity securities	43	57	(14)	(25)%	123	106	17	16 %
Net servicing loss	(207)	(1,002)	795	79 %	(1,118)	(677)	(441)	(65)%
Income on cash surrender value of bank-owned life insurance	317	315	2	1 %	645	625	20	3 %
Other	103	159	(56)	(35)%	203	379	(176)	(46)%
Total non-interest income	$ 1,323	$ 2,068	$ (745)	(36)%	$ 1,852	$ 5,896	$ (4,044)	(69)%

Non-interest income of $1.3 million for the three months ended June 30, 2020 decreased $0.7 million as compared to the same period of 2019. Non-interest income of $1.9 million for the six months ended June 30, 2020 decreased $4.0 million as compared to the same period of 2019. The decreases in non-interest income in both the three and six months ended June 30, 2020 were primarily attributable to a decrease in gain on sale of portfolio loans due to the absence of portfolio loan sales during the first half of 2020, reflecting the permanent discontinuation of the Advantage Loan Program which historically represented the largest component of our sold loans. In addition, net servicing loss decreased $0.8 in the three months ended June 30, 2020 due to a $1.2 million mortgage servicing rights valuation adjustment during the same period of 2019. For the six months ended June 30, 2020 net servicing loss increased $0.4 million primarily as a result of a write-off of mortgage servicing rights associated with repurchases on two pools of Advantage Loan Program loans in May 2020.

Non-interest Expense

Non-interest expense information is as follows:

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2020	2019	Amount	Percent	2020	2019	Amount	Percent
				(Dollars in thousands)				
Salaries and employee benefits	$ 7,336	$ 7,381	$ (45)	(1)%	$ 14,089	$ 14,648	$ (559)	(4)%
Occupancy and equipment	2,208	2,170	38	2 %	4,326	4,407	(81)	(2)%
Professional fees	8,268	1,104	7,164	649 %	11,580	2,066	9,541	461 %
Advertising and marketing	70	406	(336)	(83)%	343	845	(502)	(59)%
FDIC assessments	240	190	50	26 %	259	445	(186)	(42)%
Data processing	351	303	48	16 %	686	611	75	12 %
Other	1,574	2,171	(597)	(27)%	2,999	3,825	(826)	(22)%
Total non-interest expense	$ 20,047	$ 13,725	$ 6,322	46 %	$ 34,282	$ 26,847	$ 7,435	28 %

Non-interest expense of $20.0 million for the three months ended June 30, 2020 increased $6.3 million as compared to the same period of 2019. Non-interest expense of $34.3 million for the six months ended June 30, 2020 increased $7.4 million as compared to the same period of 2019. The increases in both the three and six months ended June 30, 2020 were attributable to an increase in professional fees as we have incurred significant legal expenses in defending pending litigation and in cooperating with the investigations and we expect to continue to do so during the pendency of these matters. Professional fees also included the cost of professionals utilized to assist with the ongoing compliance effort related to the OCC Agreement and other ongoing enhancements to our regulatory compliance framework.

Income Tax Expense

We recorded an income tax expense of $1.2 million for the three months ended June 30, 2020, a decrease of $4.3 million from the same period of 2019. Our effective tax rate was 28.8% for both the three months ended June 30, 2020 and 2019. We recorded an income tax benefit of $0.7 million for the six months ended June 30, 2020, compared to an income tax expense of $11.8 million for the same period of 2019. Our effective tax rate was 38.5% and 28.8% for the six months ended June 30, 2020 and 2019, respectively. Our effective tax rate is based on forecasted annual results which may fluctuate significantly through the rest of the year, in particular due to the uncertainty in our annual forecasts resulting from the unpredictable impact of COVID-19 on our operating results.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations when they come due. Our primary sources of funds consist of deposit inflows, loan repayments, and FHLB borrowings. 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.

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. Excess liquid assets are invested generally in interest earning deposits and short-term securities.

Our most liquid assets are cash and due from banks, interest-bearing time deposits with other banks and U.S. Treasury and Agency securities classified as available for sale. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2020 and December 31, 2019, cash and due from banks totaled $623.4 million and $77.8 million, respectively; interest-bearing time deposits with other banks totaled $9.7 million and $1.0 million, respectively; U.S. Treasury and Agency securities classified as available-for-sale, which provide additional sources of liquidity, totaled $120.1 million and $145.9 million, respectively.

At June 30, 2020, we had the ability to borrow a total of $799.0 million from the FHLB including an available line of credit with the FHLB of $50.0 million. At June 30, 2020, we also had available unsecured credit lines with additional banks for $100.0 million. Outstanding borrowings at June 30, 2020 with the FHLB totaled $329.0 million, and there were no amounts outstanding with the aforementioned additional banks. Subsequent to June 30, 2020, we reduced the loans pledged as collateral on FHLB borrowings, thereby reducing our ability to borrow from the FHLB to $459.0 million. This reduction in collateral reflects the results of the Internal Review.

We have no material commitments or demands that are likely to affect our liquidity other than as set forth below. In the event loan demand were to increase faster than expected, or any unforeseen demand or commitment were to occur, we could access our borrowing capacity with the FHLB or our bank lines of credit, or obtain additional funds through brokered deposits.

To avoid the uncertainty of audits and inquiries by third-party investors in 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 sold Advantage Loan Program loans. In July 2020, three third-party investors accepted the above mentioned offer, from which the Company repurchased three pools of Advantage Loan Program loans sold with a total outstanding unpaid principal balance of $19,521. Should additional secondary market investors accept our offers to repurchase Advantage Loan Program loans with respect to a substantial portion of such outstanding loans, the cash required to fund these repurchases will substantially reduce our liquidity. At June 30, 2020, the unpaid principal balance of the sold Advantage Loan Program portfolio totaled $540.0 million.

At June 30, 2020, we had $293.5 million in loan commitments outstanding, and $24 thousand in standby letters of credit. At December 31, 2019, we had $297.5 million in loan commitments outstanding, and $24 thousand in standby letters of credit.

Time deposits due within one year of June 30, 2020 were $1.11 billion, or 38% of total deposits. Total time deposits at June 30, 2020 were $1.58 billion, or 55%, of total deposits. Time deposits due within one year of December 31, 2019 were $855.3 million, or 34% of total deposits. Total time deposits at December 31, 2019 were $1.15 billion, or 46%, of total deposits.

Our primary investing activities are the origination of loans and to a lesser extent, the purchase of investment securities. During the three months ended June 30, 2020 and 2019, we originated $83.2 million and $356.5 million of loans, respectively, and purchased $171.0 million and $30.9 million of investment securities, respectively. During the six months ended June 30, 2020 and 2019, we originated $268.6 million and $661.4 million of loans, respectively, and purchased $246.7 million and $77.5 million of investment securities, respectively. Cash flows provided by loan payoffs totaled $136.4 million and $199.9 million during the three months ended June 30, 2020 and 2019, respectively, and $311.4 million and $359.9 million during the six months ended June 30, 2020 and 2019, respectively.

Financing activities consist primarily of activity in deposit accounts. We experienced a net increase in total deposits of $396.6 million for the six months ended June 30, 2020 compared to a net increase of $94.0 million for the six months ended June 30, 2019. We generate deposits from local businesses and individuals through customer referrals and other relationships and through our retail presence. We utilize borrowings and brokered deposits to supplement funding needs and manage our liquidity position.

On a parent company-only basis, the Company's the primary source of funding is dividends received from the Bank. Banking regulations limit the dividends that may be paid by the Bank. Approval by regulatory authorities is required if 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 the Bank would not be at least adequately capitalized following the distribution. At June 30, 2020, the Bank had capacity to pay approximately $84.4 million of dividends to the Company under regulatory guidelines without prior regulatory approval. The Company also has the legal ability to access the debt and equity capital markets for additional funding.

The Company's primary funding needs on a parent company-only basis consist of dividends to shareholders, interest expense on subordinated debt and stock repurchases. At June 30, 2020, the Company had $65.0 million in principal amount of subordinated notes outstanding that are due April 15, 2026 but may be redeemed by us, in whole or in part, on or after April 14, 2021. Interest expense on the subordinated notes was $1.2 million for both the three months ended June 30, 2020 and 2019, and $2.4 million and $2.3 million for the six months ended June 30, 2020 and 2019, respectively.

In December 2018, the board of directors approved the repurchase of up to $50.0 million of the Company's outstanding shares of common stock. The stock repurchase program permits the Company to purchase shares of its common stock from time to time in the open market or in privately negotiated transactions. Under this program, the Company is not obligated to repurchase shares of its common stock. During the six months ended June 30, 2020, the Company repurchased and cancelled 10,912 shares of its common stock for $82 thousand, including commissions and fees. Such repurchases of shares of common stock were funded from cash on hand. In March 2020, in connection with the issues giving rise to the Internal Review, the Company suspended the stock repurchase program for at least the near term.

The Company and Bank are subject to various regulatory capital 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 monthly basis including our needs for additional capital and ability to pay cash dividends. At June 30, 2020 and December 31, 2019, the capital levels of each of the Company and the Bank exceeded all applicable regulatory capital requirements, and the Bank's capital ratios were above the minimum levels required to be considered "well capitalized" for regulatory purposes.

The following tables present our capital ratios as of the indicated dates for the Company and the Bank.

	Well Capitalized	Adequately Capitalized	Under Capitalized	Company Actual at June 30, 2020	Company Actual at December 31, 2019
Total adjusted capital to risk-weighted assets	N/A	8.00 %	6.00 %	21.68 %	21.49 %
Tier 1 (core) capital to risk-weighted assets	N/A	6.00 %	4.00 %	17.05 %	17.04 %
Common Equity Tier 1 (CET 1)	N/A	4.50 %	3.00 %	17.05 %	17.04 %
Tier 1 (core) capital to adjusted tangible assets	N/A	4.00 %	3.00 %	9.20 %	10.11 %

	Well Capitalized	Adequately Capitalized	Under Capitalized	Bank Actual at June 30, 2020	Bank Actual at December 31, 2019
Total adjusted capital to risk-weighted assets	10.00 %	8.00 %	6.00 %	20.71 %	17.82 %
Tier 1 (core) capital to risk-weighted assets	8.00 %	6.00 %	4.00 %	19.44 %	16.70 %
Common Equity Tier 1 (CET 1)	6.50 %	4.50 %	3.00 %	19.44 %	16.70 %
Tier 1 (core) capital to adjusted tangible assets	5.00 %	4.00 %	3.00 %	10.49 %	9.90 %

Basel III revised the capital adequacy requirements and the Prompt Corrective Action Framework effective January 1, 2015 for the Company. Effective January 1, 2019, the Basel rules require the Company and the Bank to maintain a 2.5% "capital conservation buffer" on top of the minimum risk-weighted asset ratios. The capital conservation buffer 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 capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. At June 30, 2020 and December 31, 2019, both the Company and the Bank held capital in excess of the capital conservation buffer requirement.

Recently Issued Accounting Guidance

Refer to Note 2, New Accounting Standards, to our unaudited condensed consolidated financial statements included in Item 1. Financial Statements for a discussion of recently issued accounting guidance and related impact on our financial condition and results of operations.

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 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. Our management of interest rate risk is overseen by our board of directors ALCO, and implemented by our management ALCO 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 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 and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment and replacement of asset and liability cash flows.

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, 2020 and December 31, 2019. The table below demonstrates that for the initial 12-month period after an immediate and parallel rate shock. We are slightly asset sensitive in a rising interest rate environment and slightly liability sensitive in a falling interest rate environment.

Change in Interest Rates (Basis Points)	At June 30, 2020 Estimated 12-Months Net Interest Income	At June 30, 2020 Change	At December 31, 2019 Estimated 12-Months Net Interest Income	At December 31, 2019 Change
	(Dollars in thousands)			
400	$ 114,068	3 %	$ 102,936	(17)%
300	113,354	2 %	107,831	(13)%
200	112,166	1 %	113,372	(8)%
100	111,469	1 %	118,401	(4)%
0	110,965		123,584	
–100	108,224	(3)%	122,847	(1)%

Economic Value of Equity Simulation. We also analyze our sensitivity to changes in interest rates through an economic value of equity ("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 adjusted for the value of off-balance sheet contracts. 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. We currently calculate EVE under the assumptions that interest rates increase 100, 200, 300 and 400 basis points from current market rates, and under the assumption that interest rates decrease 100 basis points from current market rates.

The following table presents, as of June 30, 2020 and December 31, 2019, 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.

	At June 30, 2020		At December 31, 2019	
Change in Interest Rates (Basis Points)	**Economic Value of Equity**	**Change**	**Economic Value of Equity**	**Change**
	(Dollars in thousands)			
400	$ 440,298	(2)%	$ 453,316	(12)%
300	452,027	1 %	476,524	(8)%
200	455,222	2 %	495,397	(4)%
100	453,958	1 %	508,199	(2)%
0	447,578		516,430	
–100	368,607	(18)%	478,436	(7)%

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.

ITEM 4. CONTROLS AND PROCEDURES

Background

The Company commenced the Internal Review in 2019. The primary focus of the Internal Review, which has been led by outside legal counsel under the direction of the Special Committee, has involved the origination of residential mortgage loans under the Advantage Loan Program and related matters. During the course of the Internal Review, the Special Committee and management discovered that certain employees had engaged in misconduct in connection with the origination of a significant number of residential mortgage loans under the Advantage Loan Program, and management identified certain material weaknesses in the Company’s internal control over financial reporting, as further described in Part II, Item 9A, "Controls and Procedures," of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on October 6, 2020 (the “2019 Form 10-K”).

Limitations on Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

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 Securities Exchange Act of 1934, as amended (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 disclosure.

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, 2020. Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2020 because of certain material weaknesses in our internal control over financial reporting, as further described in Part II, Item 9A, "Controls and Procedures," of our 2019 Form 10-K.

Notwithstanding such material weaknesses in internal control over financial reporting, management has concluded that our condensed consolidated financial statements included in this Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods ended on such dates, in conformity with accounting principles generally accepted in the United States of America.

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 fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Other than the remediation actions disclosed in Part II, Item 9A, "Controls and Procedures," of our 2019 Form 10-K, there were no changes in our internal control over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As discussed in Part II, Item 9A, "Controls and Procedures," of our 2019 Form 10-K, we have undertaken a broad range of remedial procedures to address the material weaknesses in our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as described below, we are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. We believe that these routine legal proceedings, in the aggregate, are immaterial to our financial condition and results of operations.

OCC Investigation

The Bank is currently under formal investigation by the OCC and continues to be subject to the OCC Agreement, relating primarily to certain aspects of its BSA/AML compliance program as well as the Bank's credit administration. The OCC Agreement generally requires that the Bank enhance its policies and procedures to ensure compliance with BSA/AML laws and regulations and ensure effective controls over residential loan underwriting. The OCC Agreement requires the Bank to: (i) establish a compliance committee to monitor and oversee the Bank's compliance with the provisions of OCC Agreement; (ii) develop a revised customer due diligence and enhanced due diligence program; (iii) develop a revised suspicious activity monitoring program; (iv) engage an independent, third-party consultant to review and provide a written report on the Bank's suspicious activity monitoring; (v) develop revised policies and procedures to ensure effective BSA/AML model risk management for the Bank's automated suspicious activity monitoring system, which must be validated by a qualified, independent third party; (vi) ensure that the Bank's BSA Department maintains sufficient personnel; and (vii) develop revised policies and procedures to ensure effective controls over loan underwriting. In addition to these requirements, while the OCC Agreement remains in effect, the Bank is subject to certain restrictions on expansion activities, such as growth through acquisition or branching to supplement organic growth of the Bank. The Bank established a Compliance Committee to monitor and assure compliance with the OCC Agreement, oversee the completion of an independent review of account and transaction activity to be conducted by a third party vendor, and engage a third party to conduct a model validation for its BSA/AML monitoring software.

The Bank is fully cooperating with the OCC investigation and implementing the items necessary to achieve compliance with the obligations in the OCC Agreement. A finding by the OCC that the Bank failed to comply with the OCC Agreement or adverse findings in the OCC investigation could result in additional regulatory scrutiny, constraints on the Bank's business, or other formal enforcement action. Any of those events could have a material adverse effect on our future operations, financial condition, growth, or other aspects of our business. The Bank has incurred significant costs in its efforts to comply with the OCC Agreement and respond to the OCC investigation, which are reflected in our results of operations for the first six months of 2020.

DOJ Investigation

The Bank also has received grand jury subpoenas from the DOJ beginning in early 2020 requesting the production of documents and information in connection with an investigation that appears to be focused on the Bank's residential lending practices and related issues. The Bank is fully cooperating with this ongoing investigation. Adverse findings in the DOJ investigation could result in material losses due to damages, penalties, costs, and/or expenses imposed on the Company, which could have a material adverse effect on our future operations, financial condition, growth, or other aspects of our business. The Bank expects to incur significant costs in its efforts to comply with the DOJ investigation in 2020.

Shareholder Litigation

The Company, certain of its current and former officers and directors, and other parties have been named as defendants in a shareholder class action captioned *Oklahoma Police Pension and Retirement System v. Sterling Bancorp, Inc.*, et al., Case No. 5:20-cv-10490-JEL-EAS, filed on February 26, 2020 in the United States District Court for the Eastern District of Michigan. The plaintiffs filed an amended complaint on July 2, 2020. This action alleges violations of the federal securities laws, primarily with respect to disclosures concerning the Bank's residential lending practices that were made in the Company's registration statement and prospectus for its initial public offering, in subsequent press releases, in periodic and other filings with the SEC, and during earnings calls. The Company filed a motion to dismiss the amended complaint with the court on September 22, 2020. We will continue to incur legal fees in connection with this and potentially other cases, including expenses for the reimbursement of legal fees of present and former officers and directors under indemnification obligations. The expense of continuing to defend such litigation may be significant. The Company intends to vigorously defend this and any related actions.

The outcome of the pending investigations and litigation is uncertain. There can be no assurance (i) that we will not incur material losses due to damages, penalties, costs and/or expenses as a result of such investigations or litigation, (ii) that the reserves we have established will be sufficient to cover such losses, or (iii) that such losses will not materially exceed such reserves and have a material impact on our financial condition or results of operations. The Company has incurred significant legal expenses in defending the litigation and in cooperating with the investigations and expects to continue to do so during the pendency of these matters.

In addition, on July 28, 2020, the Company received a demand letter from two law firms representing a purported stockholder of the Company alleging facts and claims substantially the same as many of the alleged facts and claims in the class action lawsuit. The demand letter requests that the board of directors take action to (1) recover damages the Company has purportedly sustained as a result of alleged breaches of fiduciary duties by certain of its officers and directors; (2) recover for the benefit of the Company the amounts by which certain of its officers and directors purportedly were unjustly enriched; and (3) correct alleged deficiencies in the Company's internal controls. The demand letter states that, if the board of directors has not taken the actions demanded within 90 days after the receipt of the letter, or in the event the board of directors refuses to take the actions demanded, the purported stockholder will commence a stockholder derivative action on behalf of the Company seeking appropriate relief. The board of directors has recently established a demand review committee to evaluate the matters raised in the demand letter and to determine the actions, if any, that should be taken by the Company with respect to those matters. The Company has responded to the demand letter advising the purported shareholder of the appointment of the demand review committee. There can be no assurance as to whether any litigation will be commenced by or against the Company with respect to the claims set forth in the demand letter or that, if any such litigation is commenced, it will not have a material impact on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on October 6, 2020.

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

Stock Repurchase Program

On December 24, 2018, the board of directors approved the repurchase of up to $50.0 million of the Company's outstanding shares of common stock. The stock repurchase program permits the Company to acquire shares of common stock from time to time in the open market or in privately negotiated transactions. The Company received regulatory approval of the stock repurchase program and publicly announced the program on January 28, 2019. The program does not have an expiration date. Under the stock repurchase program, the Company is not obligated to repurchase shares of its common stock, and there is no assurance that it will continue to do so. Any shares repurchased under this program will be canceled and returned to authorized but unissued status.

In March 2020, in connection with the issues giving rise to the Internal Review, the Company suspended the stock repurchase program for at least the near term.

ITEM 6. EXHIBITS

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

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference Form	Period Ending	Exhibit / Appendix Number	Filing Date
10.1	Employment Agreement with Mr. Thomas M. O'Brien, dated as of June 1, 2020		8-K		10.1	June 1, 2020
10.2	Form of Option Award to be entered into with Mr. Thomas M. O' Brien		8-K		10.2	June 1, 2020
10.3	Stock Purchase Agreement with Mr. Thomas M. O'Brien, dated as of June 1, 2020		8-K		10.3	June 1, 2020
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	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded in the Inline XBRL document and included in Exhibit 101).					

* This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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: October 19, 2020

STERLING BANCORP, INC.
(Registrant)

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

By: /s/ Stephen Huber
Stephen Huber
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: October 19, 2020

/s/ THOMAS M. O’BRIEN
Thomas M. O’Brien
Chairman and 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, Stephen Huber, 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: October 19, 2020

/s/ STEPHEN HUBER
Stephen Huber
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, 2020 (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: October 19, 2020

/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, 2020 (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: October 19, 2020

/s/ STEPHEN HUBER
Stephen Huber
Chief Financial Officer
(principal financial officer)