



**RESTORE  
THE SHINE**

**ZIMCAL**  
ASSET MANAGEMENT

**THE “FIVE STEPS TO IMPROVEMENT” FOR MEDALLION FINANCIAL CORP.  
“What’s wrong, why it’s wrong and how to fix/mitigate it”**

**Target Audience: Medallion leadership**

**Whitepaper updated: 09/12/2024**

**MRQ Analysis: 1Q24**

This analysis reflects what ZimCal Asset Management LLC and its affiliates (collectively “ZimCal”) believe is the best path forward to creating long-term value for Medallion Financial Corp. (“MFIN” or the “Company”). This is a working paper, and we will generate updated drafts of the “Five Steps to Improvement” (“5 Steps”) as we continue to receive updated financial data from MFIN and its peers, and excellent feedback from existing stockholders. Due to ZimCal’s credit background and extensive experience investing in over 100 banks, fundamental analysis drives our approach, and we believe that operational improvements and credit risk management are the most important issues for the Company to focus on. Attempting to draw a bridge from existing equity valuations to future valuations is a guessing game and virtually impossible with the current economic uncertainty. Rather, we believe that if the Company can make incremental (but cumulatively material) improvements and identify and mitigate future risks, we know that its valuation and multiples will improve in the long run. Being a good consumer lender is not complicated but neither is it easy. There are a few key things we believe every lender, and investors in lenders, should accept:

- a) Feedback is slow. Loans originated now may take years to show credit issues.
- b) Competition is fierce in consumer lending and barriers-to-entry are low.
- c) In competitive collateral types, interest rates charged and loan terms for desirable borrowers are set by the market, not the individual lender, regardless of what a lender thinks about its “uniqueness”. Any lender-friendly rates and terms are usually only available for riskier, lower FICO borrowers and/or weaker (illiquid, volatile, specialized) collateral.
- d) Bank lenders have little control over their cost of interest-bearing deposits, particularly if they rely on brokered deposits which are at market rates. However brokered deposits give excellent control over liquidity and asset-liability management.
- e) As a result of b) through d), in the long-term, lenders have little control over the “spread” between their yields on earning assets and the costs to fund those earning assets, which is what drives most of their profits.
- f) Technology is transforming consumer lending in ways that we believe will only accelerate, and new well-capitalized entrants will deploy technology to compete more fiercely, and perhaps irrationally, as they seek market share.
- g) Lenders **DO** have substantial control over four key things:
  - a. Their credibility with investors.
  - b. Their charge-off rates and delinquencies.
  - c. Their servicing and collection efficiency.
  - d. Their operating expenses (primarily personnel).

This is what our 5 Steps mostly focuses on; what can be controlled by the Company and how to excel in those areas to increase the odds of success in any future scenario. It is not enough for the Company in its public filings to disclose potential risks so it can “check the box”; it is far more important to put a plan in place to mitigate the impact of those risks. Analogous to building a house, discovering it is in an earthquake-prone zone, but then doing nothing to make it less likely to be damaged if an earthquake strikes. Recognizing the risk is step 1, adapting to the risk is step 2. ZimCal does not claim to know where “market” multiples will eventually settle and sees limited value in generating a discounted cash flow model that relies mostly on guesswork. We do not know what the future impact of a fundamentally different interest rate and economic environment will mean to consumers and consumer lending. We do not pretend to have all the answers. But we know how to execute, how to use the data, how to “block and tackle” and how to hold management accountable. The Board needs directors that have *current* experience in areas that directly overlap with the Company’s core business, including consumer lending, risk management, banking and credit analysis. Then the Board can help make Medallion Financial Corp. best-in-class, which will increase the probability of long-term gains for all stakeholders. **These directors do not have to be ZimCal nominees.** In compiling this recommendation, there is the danger of trying to fix everything, so we have focused on the most impactful and easily fixable, outlined through the following five basic steps:

1. **Enhance the Board of Directors.** Remove family control of the Board and add new directors with relevant experience that overlaps with the Company’s core strategy, who will answer to shareholders, and hold management accountable.

2. **Resolve the SEC Complaint.** Murstein is charged with fraud and lying by the SEC. The SEC complaint is the biggest obstacle to regaining credibility with investors. Resolving it would let shareholders quantify the financial impact of the lawsuit on their investment.
3. **Improve Management.** Bring in a professional, slimmed down management team that has credibility with investors and can guide the company to long-term success.
4. **Cut Expenses.** Reduce unnecessary expenses to increase profits to shareholders and to be better prepared for a possible economic slowdown and/or lower consumer demand. Operating efficiencies will be critical in a down-cycle
5. **Go On Offense.** Get rid of distractions, focus on the core consumer lending business and invest in technology so that MFIN can better compete in an ultra-competitive consumer lending environment

The 5 Steps were first published at [www.restoretheshine.com/5-steps](http://www.restoretheshine.com/5-steps) on May 9<sup>th</sup>, 2024. The following are MFIN's responses from their May 2024 investor deck:

1. **"Enhance the Board" – No Change Needed, and Hodges Would Not Bring Positive Change**
  - *Our Board has the right mix of skills for our growing lending business, and our nominees bring banking expertise and differentiated perspectives.*
  - *Hodges' nominees would bring neither relevant industry expertise (limited to no commercial experience) nor a diversity of perspectives (limited to no experience outside of financial services).*
  - *Our Board is independent and aligned with shareholders. All of our independent directors have joined since 2017, including three in the last four years, and our Board and officers collectively own 24% of outstanding shares.*
2. **"Resolve the SEC Complaint" - No Change Needed, and Hodges Would Not Bring Positive Change**
  - *The Company believes the allegations in the SEC complaint are meritless. Overseen by independent directors and advised by experienced SEC counsel, the Company is focused on resolving this matter.*
3. **"Improve Management" - No Change Needed, and Hodges Would Not Bring Positive Change**
  - *The Company's successful business transformation was driven by significant, highly relevant expertise at management and subsidiary levels, with teams fit to drive growth and resilience.*
  - *Hodges' criticisms boil down to personal attacks on Alvin and Andrew Murstein, failing to acknowledge not only the Company's successful transformation under their leadership but also the remainder of the talented management team.*
4. **"Cut Expenses" - No Change Needed, and Hodges Would Not Bring Positive Change**
  - *The Company is continuing to reduce operating costs, building on reduction from 54% of net interest income in 2019 to 40% in 2023, and regularly reviewing and optimizing our footprint and headcount for additional efficiencies.*
  - *Cutting expenses only for the sake of doing so risks our ability to execute our strategy*
5. **"Go on Offense" - No Change Needed, and Hodges Would Not Bring Positive Change**
  - *We are continuing to grow our high-return, scalable, and strong cash-generating consumer business model.*
  - *We are driving even greater profitability from enhanced operational efficiency and investments in technology.*

In response to the key concerns we highlighted on our website [www.restoretheshine.com](http://www.restoretheshine.com) (all of which are captured within our 5 Steps), MFIN responded in their letter to shareholders dated May 24, 2024 with the following:

*Mr. Hodges' "five-step plan" has no actionable benefits for the Company. No change is needed and based on his statements Hodges would only bring negative change that could derail the Company's continued value creation if he and his nominee were elected.*

*Since launching his self-serving campaign, Mr. Hodges has made inaccurate and misleading statements about the performance of our business and future growth prospects – which we have detailed the facts on above. He has also deliberately mischaracterized our governance and compensation practices:*

**Hodges' False Claim: The Board is rewarding management instead of shareholders**

**Facts (per MFIN):**

- *As detailed above, over the past three years, the Board has returned over \$36 million to shareholders via dividends and stock repurchases, including by reinstating the Company's quarterly dividend and raising it to \$0.10 per share.*
- *Due to the Company's successful transformation to a consumer lending business, our TSR has consistently outperformed peers.*

**Hodges' False Claim: Medallion's executive compensation is excessive**

**Facts (per MFIN):**

- Our executive compensation programs have been enhanced in response to feedback from shareholders and have received substantial support, including nearly 90% of the shares voting approving 2022 compensation at our 2023 annual meeting.

**Hodges’ False Claim: Andrew Murstein’s pay exceeds that of executives at larger companies with higher earnings**

**Facts (per MFIN):**

- Hodges makes dishonest and intentionally misleading comparisons between Andrew Murstein’s compensation over the span of six years (Hodges’ timeline) with executives who have not been in a comparable role for the same amount of time.
- More importantly, Medallion’s TSR is more than triple that of the two banks Hodges references over the past three years.

**Hodges’ False Claim: Dividends could be suspended if core performance continues to worsen under the current management and board**

**Facts (per MFIN):**

- As detailed in our Investor Presentation, management continues to mitigate risk with proven underwriting practices, significant focus on increasing weighted average FICO scores, sound judgment, lender protections, and rigorous portfolio monitoring.

Despite Hodges’ attempts to misrepresent the truth, we are committed to being open and transparent with our shareholders about the state and progress of our business. Please consider the following:

- Medallion’s governance and Board are fit for building on the Company’s successful business transformation. The Board has the right mix of skills, experience, and perspectives, and has been assembled through thoughtful and regular refreshment. All independent directors have joined since 2017, including three within the last four years.
- The Board and management team are deeply aligned with shareholders, collectively holding 24% of the Company’s outstanding shares. On the contrary, Mr. Hodges only holds 0.3% – all of which has been acquired since December 2023 in connection with this proxy contest. Medallion’s management team is highly experienced and has proactively led the Company to become a growing consumer lending business. The Company is continuing to grow its high return, scalable, and strong cash-generating model, and is driving even greater profitability from enhanced operational efficiency and investments in technology.

**Contrary to Hodges’ claims, our business is performing very well:**

- **Record Earnings:** In 2023, the Company had the highest total net income and highest annual earnings per share since its initial public offering in 1996.
- **Business Growth:** During 2021 through 2023, the Company collectively increased recreation, home improvement and commercial loans by 80%.
- **Capital Return:** Since 2021, the Company has returned over \$36 million to shareholders through dividends and repurchases, including reinstating and raising its quarterly dividend.
- **TSR Outperformance:** Strong cumulative total shareholder return over the past 1, 3, and 5 years, including 44% over the last year, more than 118% over the last three years and more than 128% over the last five years, significantly above the median of our peers.

A detailed rebuttal to every point MFIN made above can also be accessed [here](#) and unlike MFIN, we provide supporting details and sources. We also provide rebuttals in the 5 Steps below. We provided a version of the 5 Steps to MFIN seven months before filing the preliminary proxy statement and told Andrew Murstein and the Board if “you feel my data is inaccurate, please point that out and I will gladly review it and correct it if necessary.” They did not correct the data and conclusions we presented in October 2023 and yet referred to it as “inaccurate and misleading” during the proxy contest. MFIN chose to respond to our detailed and lengthy analysis with a few bullet points of acknowledgment, personal attacks on our intentions, predictable platitudes with no accompanying details, and a resounding “No Change Needed”. We found the brevity of the response amusing. We look forward to seeing if change is in fact needed or whether MFIN discounted our suggestions for the sake of “winning” the proxy contest but was well aware of the need for change and therefore disingenuous in its investor presentation. We believe that it is critically important to review MFIN’s responses above in their entirety and then read the following analysis to get a sense of whether it is either “inaccurate”, “misleading”, “dishonest”, “self-serving”, “has no actionable benefits” or “would derail the company’s value creation” as MFIN asserted.

## Step 1 – Enhance the Board.

### **Remove Murstein family control of the Board and add new Directors with relevant experience that overlaps with the Company's core strategy, who will answer to shareholders and hold management accountable.**

ZimCal's proxy fight was for Board seats because that is the only way that change can start. The Board is the foundation for effective management and creating a sustainable strategy that will maximize returns to stockholders. ZimCal believes that the Board should take that fiduciary responsibility very seriously. The Board serves its stockholders and every decision needs to be viewed through that lens. The Board should not provide cover for Andrew Murstein and his father to run MFIN like it is a family-owned business. We repeat that new directors do not need to be ZimCal nominees, simply well-qualified independent individuals.

#### **1. The Board needs fresh ideas and directors that are unafraid to challenge the status quo.**

The average age of the current Board is 75. 4 of 8 directors have been on either the board of MFIN or Medallion Bank (or "the Bank") for over 20 years with the entire Board averaging 16 years. We do not believe that being "younger" or "older" means Directors are effective or not, but we do believe that every Board needs fresh perspectives and independent thinkers. The Chairman of the Board, Alvin Murstein, is 89 years old and David Rudnick is 83. They are the longest serving board members (~29 years). The 3 most recent board members were added in 2017 (2) and 2020 (1). Having such an entrenched Board with strong Murstein ties explains the Board's seeming unwillingness to make very obvious governance improvements, and we question the Board's ability to be critical of Andrew and Alvin Murstein's decision making.

#### **2. The Board needs directors with *current* experience in consumer lending, capital markets, banking, business/business-line start-ups, credit analysis, risk management and asset-backed securitizations.**

There have been significant changes in consumer lending models and technology over the last 3, 5 and 10 years. We believe that the pace of change will only accelerate. Consumer lending in 2024, requires an understanding of every facet of consumer finance and thinking through the various options that give balance-sheet lenders maximum flexibility including capital allocation, loan sales, debt funding, fee income, and credit risk/interest rate risk management. The current, independent Board members are accomplished in their respective careers and have professional experience in law, commercial banking, real estate, venture capital, and business development. While this experience is useful, *current* experience of consumer lending, risk management and loss mitigation is notably absent from the experience of the current directors. Even though the proxy contest is over, we do not understand how MFIN cannot recognize this deficiency in the current Board and work to find candidates with current experience.

#### **3. MFIN needs to eliminate what we see as effective control of the Board by the Murstein family and enhance true Board independence.**

3 of 8 current Board members are direct Murstein family members; they are Andrew Murstein (President/COO), his father Alvin Murstein (CEO and Chairman of the Board) and Andrew Murstein's father-in-law David Rudnick. We do not believe this is either public company best practices or a structure that is desirable to institutional shareholders, which limits institutional interest and liquidity in the stock. The current "lead independent director", Brent Hatch, was on Medallion Bank's board for 19 years before joining the Board 2 years ago. He can hardly be considered an objective outsider. The non-family, current Board members do have experience in governance, which is why their treatment of Andrew Murstein is so perplexing. They should know the importance of independence and to whom they owe a fiduciary duty and yet we believe their actions show the complete opposite. Had an employee or executive done what Murstein actually did as detailed by the SEC (as opposed to allegedly did) at any other company at which those independent Board members worked or served on the board, we believe that their response would have been different and that employee would have been held accountable.

#### **4. The Board should select an outside, independent, and reputable firm to investigate the SEC allegations and to address obvious conflicts.**

The focus for an independent investigation should not necessarily be on the legality of Andrew Murstein's actions but rather compliance with the Company's internal controls, policies and procedures. The firm should be reputable, independent, and protected from any undue influence from non-independent Directors. The investigation should determine to what extent Andrew Murstein did or did not violate the Company's Code of Ethics and/or his fiduciary responsibility as a Board member. It should also determine to what extent the Board oversaw the valuation process for the Bank subsidiary from 2015 – 2018 (during which Andrew Murstein headed up the committee responsible), mitigated the conflict of interest with Andrew Murstein leading that process, whether any quid pro quo arrangements were used as an enticement for a higher valuation, and the Board's evaluation of the valuation methodology and conclusion. If the detailed SEC coverage of internal communications is to be believed, it appears that Murstein led and greatly influenced the valuation process. A suitable analogy would be having a cash strapped sub-prime mortgage applicant underwrite their own loan, oversee their own diligence, select and pay their own appraiser, approve the loan and advance funding. Not a sign of anything nefarious but a colossal breakdown in controls and certainly not confidence inspiring for investors. If violations were found, we believe the Board should hold Andrew Murstein accountable to the fullest extent possible and utilize the Board's Compensation Recoupment authority for "detrimental conduct" based on the original March 21, 2019 policy. The 2023 Proxy disclosure on the Company's Compensation Recoupment (Clawback) Policy stated:

"The Company's Compensation Recoupment Policy seeks to promote a culture of risk mitigation, integrity and accountability. The Compensation Recoupment Policy authorizes the Compensation Committee to seek recoupment or clawback of cash and equity incentive compensation received by an executive officer in the event of a financial restatement or the executive officer's detrimental conduct."

Further, the Company's Code of Ethical Training and Insider Trading Policy (as amended February 15, 2021) stated:

"Each Company employee must:

Conduct the Company's business with honesty and integrity and in a professional manner that protects the Company's good public image and reputation... Avoid any activities that could involve or lead to involvement in any unlawful practice or any harm to the Company's reputation or image. Avoid actual or potential conflicts of interest with the Company, or the appearance thereof, in all transactions."

**5. The Board should ensure that proxy peer companies that MFIN executive compensation is compared to are actually relevant peers with similar businesses and risk profiles and not cherry-picked to justify higher executive compensation.**

It's important to note that MFIN (and proxy advisors) compare the compensation of Alvin Murstein, MFIN's CEO, to the CEOs/leaders of peer companies to determine if compensation is excessive. Alvin Murstein is 89 years old and does not run MFIN. We believe this is by design and allows Andrew Murstein, the highest paid executive at MFIN, to avoid scrutiny. For example, at FYE23, Andrew Murstein was paid \$6.5 million in total compensation; Alvin Murstein was paid \$3 million. ZimCal compared MFIN's compensation levels to the 19 of 21 proxy peers listed in MFIN's 2022, 2023 and 2024 DEF14A (2 were eliminated - 1 was taken private and the other went bankrupt). We realize that finding peers is a subjective process and it is difficult to find directly comparable institutions, however, there are a few criteria most reasonable Boards would agree on:

- Most proxy peers should be FDIC-insured since Medallion Bank generates 94% of MFIN's revenues (FYE23) and is 87% of its assets. The Bank is regulated by the Utah DFI and FDIC and funds itself through FDIC-insured deposits. Regulators can set strict rules on capital ratios, can limit up-streamed dividends to the Holding Company ("HoldCo") and can approve/disapprove of new business lines which is unique to regulated entities.
- Since the Company is at its core an installment lender dependent almost entirely on spread income rather than fee income, peers should also be primarily installment loan-focused, balance-sheet lenders rather than fee generating originators.

- Since the company has considerable prime exposure in its main business segments, benchmarks should also have the same prime/sub-prime composition with loans secured by consumer discretionary/real assets.
- Benchmarks should be comparable in size (market cap, revenues etc.) to the Company and employ similar leverage with similar risk profiles and earnings volatility.

In summary, MFIN is best compared to FDIC-insured lenders who share all those traits and preferably lenders with a consumer focus, make installment loans and have 20-30% subprime exposure. Instead, the proxy peer group from 2022 and 2023 only contains 6 FDIC-insured banks but also includes: non-balance sheet lenders who originate to securitization/sale, B2B equipment rentals, an aircraft and aircraft engine lessor, marketplace platforms, a pawn shop lender, an unsecured credit card collector, a purchaser of charged-off consumer receivables, entirely sub-prime focused lenders, and unsecured installment lenders<sup>i</sup>. There is tremendous variation in market cap, capital structure, revenue size, profit margins, business drivers and volatility and therefore, we do not think this proxy peer group adds any value *especially* when compared to the compensation of Alvin rather than Andrew Murstein.

## 6. The Board should review and right-size Andrew Murstein's compensation structure to better align with stockholder interests.

We are a believer in rewarding outstanding performance, but core performance at MFIN has not been outstanding and MFIN stock has underperformed, yet Murstein and management have been richly rewarded. In order to gauge the extent of the excessive pay, ZimCal compared compensation against both MFIN's provided compensation proxy peer groups from their 2022, 2023 and 2024 DEF14A filings and we compared MFIN to top performing FDIC-insured banks. We reasoned that top performing banks would provide a maximum upper bound for top executive compensation and that Murstein would be significantly below that based on MFIN's performance; we were wrong. MFIN's top executive compensation (paid to Andrew Murstein) was compared to the equivalent person at each comparable company each year. As previously mentioned, MFIN's compensation peers included 21 companies in a variety of industries, most not comparable to MFIN's consumer lending focus or subject to FDIC regulation. 2 companies were excluded. We also compared MFIN's compensation to the top performing \$50BN - \$100BN asset banks with the highest (best) leverage ratios, best quality loans and highest ROAs (leverage ratio >9.50%, ROA >0.75%, and Charge-offs (net) <0.50%) – this included Webster Financial and First Horizon, with Synchrony Financial included because of its industrial bank and consumer focus. MFIN was also compared to 3 of the top 10 performing \$2BN - \$5BN asset public FDIC-insured banks (leverage ratio >13%, ROA >1% and Charge-offs(net) <0.10%) – this included RBB Bancorp, Parke Bancorp and Baycom Bancorp. FYE23 was the most recent compensation data provided by ALL comparable companies. MFIN ranked very poorly on almost all metrics when compared to proxy peers at FYE23. MFIN ranked even worse against top performing large banks and top performing small banks. In what can only be attributed to a Board that works for management, rather than its shareholders, here are some examples of how Mr. Murstein's compensation is egregious in both absolute and relative terms:

- In the 6 years 2018 to 2023 (after MFIN converted from a BDC), MFIN cumulative net profits to shareholders were \$77 million while Mr. Murstein was paid \$19.5 million<sup>ii</sup> in **CASH** compensation. Murstein was paid 25% of the total profits to stockholders.
- Andrew Murstein has a change-in-control provision that would result in a **\$14.2 million payout** to him. This was 7.5% of the Company's market capitalization at 1Q24.
- When MFIN's market cap went below \$50 million in 2017 from a peak of over \$300 million 3 years prior, Murstein was still paid \$1.2 million in cash compensation including a \$975,000 bonus.
- Even when the Company lost \$39.9 million in 2018 (its largest loss ever), both Alvin and Andrew Murstein received \$291,000 in perquisites to cover personal items including country club memberships, company drivers, social club memberships, car leases, car maintenance and other benefits<sup>iii</sup>. Andrew Murstein also received a \$1.4 million bonus that year.
- Over the last 10 years, Andrew Murstein has averaged an 84% cash pay/non-cash equity pay ratio<sup>iv</sup>. We believe that a high cash compensation ratio to non-cash (equity or contingent) compensation does not align management with long-term shareholder performance. Murstein's cash compensation was \$29.6 million from 2014 to 2023 and his non-cash (mostly stock) compensation was an additional \$6.5 million.

However, despite the stock awards, the value of Murstein’s entire ownership stake in MFIN declined \$2.1 million in value from 04/17/14 to 04/12/24<sup>v</sup>. As it relates to MFIN, Murstein’s cash pay drove all his wealth increase over the last 10 years, not his stock awards or stock appreciation. We do not believe this aligns Murstein with stockholders.

- Murstein is paid more in cash (non-contingent) pay than the top paid executives of top performing banks that are 30x larger than MFIN by asset size, have a better CORE ROAA, have quarterly charge-offs 12x less than MFIN’s, manage several thousand employees and have valuation multiples higher than MFIN’s (see Figure 1 below).
- Compared to the best performing, public, FDIC-insured banks with assets between \$2BN and \$5BN, Mr. Murstein’s cash compensation at FYE23 was more than 3 times higher than the average (Figure 1).
- At 1Q24, compared to the 19 active MFIN identified compensation peers MFIN ranked poorly, including: market cap (MFIN was 4<sup>th</sup> smallest); revenue (4<sup>th</sup> smallest); Leverage Ratio (7<sup>th</sup> worst); Cash Compensation/Net Income (2<sup>nd</sup> highest paid/worst); Cumulative Compensation/Total Net Profit (last 6 years) (highest paid/worst)<sup>vi</sup> (Figures 2, 3, 4 and 5 below).

In addition to the absolute amount of compensation relative to peers, there should be some correlation between key performance metrics that specifically apply to lenders. Issues that often manifest themselves well after a loan is made including, for example, delinquencies and charge-offs. MFIN’s DEF14A states:

“The principles of our executive compensation programs are to encourage good governance, protect and promote the interests of our shareholders, align the interests of our executives with those of the company, promote a culture of integrity and accountability, and enhance shareholder value.”

We believe that under the current structure, the compensation and incentive programs do anything but. We believe that the incentive structure encourages short-term thinking that may not align incentives with stakeholders and could hurt long-term health and profitability.

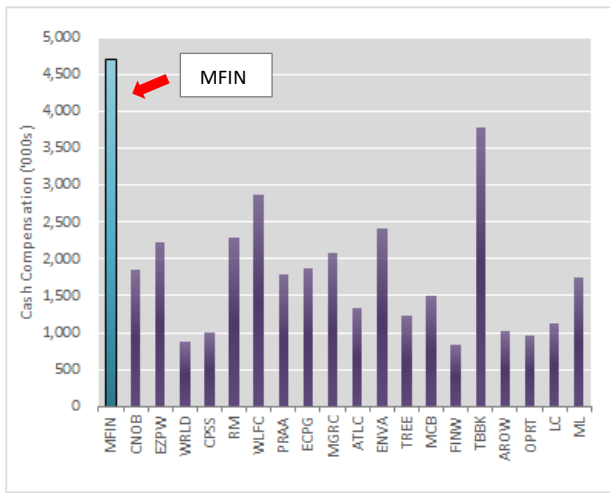
**Figure 1: Comparison of MFIN compensation vs. Highly Capitalized Top Performing \$50BN - \$100BN Banks & \$2BN - \$5BN Peer Banks (through FYE23)**

	Company	Cash Salary FYE23	2018-2023 Cum. Comp.	Cash Salary Rank FYE23	Assets	Employees	2018-2023 Net Income
Andrew Murstein, President & COO MFIN	Medallion Financial	\$4.7 million	\$24.8 million	2	\$2.6 BN	169	\$77 million
John R. Ciulla - Chairman and CEO	Webster Financial	\$2.5 million	\$30.8 million	4	\$74.9 BN	>4,000	\$2,885 million
Brian D. Doubles - President and CEO	Synchrony Financial	\$5.6 million	\$55.4 million	1	\$117.5 BN	>20,000	\$17,397 million
D. Bryan Jordan - Chairman, President & CEO	First Horizon	\$2.7 million	\$44.2 million	3	\$81.7 BN	>7,000	\$4,627 million
David Richard Morris - President, CEO & CFO	RBB Bancorp	\$0.9 million	\$4.3 million	7	\$4.0 BN	>350	\$272 million
Vito S. Pantilione - President & CEO	Parke Bancorp	\$1.5 million	\$9.5 million	5	\$2.0 BN	>100	\$194 million
George J. Guarini - President, CEO & Director	Baycom Corp.	\$0.9 million	\$10.0 million	6	\$2.6 BN	>350	\$117 million

**Source: S&P Capital IQ, DEF14A**

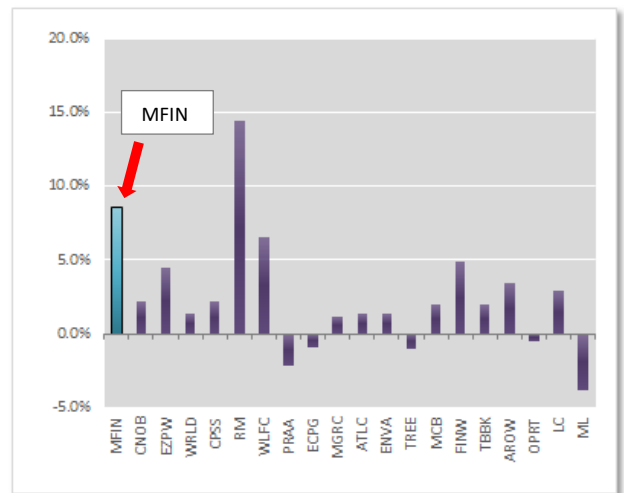
Andrew Murstein was paid more in cash compensation than the highest paid executive of every comparison bank except **Synchrony Financial’s President, who was paid \$5.6 million** in cash comp in 2023 and **\$55 million in cumulative total comp.** (cash and stock) from 2018-2023 **after generating \$17.4 billion in cumulative profits** from 2018-2023. Murstein was paid \$4.7 million in cash comp in 2023 and \$25 million in cumulative total comp. from 2018-2023 after generating only \$77 million in profits from 2018-2023. Mr. Murstein was paid 45% of Synchrony’s President’s compensation for 0.44% of Synchrony’s cumulative profits. Compared to banks that are significantly larger/more complex, and banks that are similar in size but more consistently profitable, Mr. Murstein was paid substantially more in cash compensation, total compensation and cumulative 5-year compensation (relative to profits and returns) than all of them. Synchrony Financial was included as a comparison because it is a large, consumer-focused FDIC-insured industrial bank.

**Figure 2: Highest Paid Executive Cash Compensation FYE23 versus Proxy Peers**



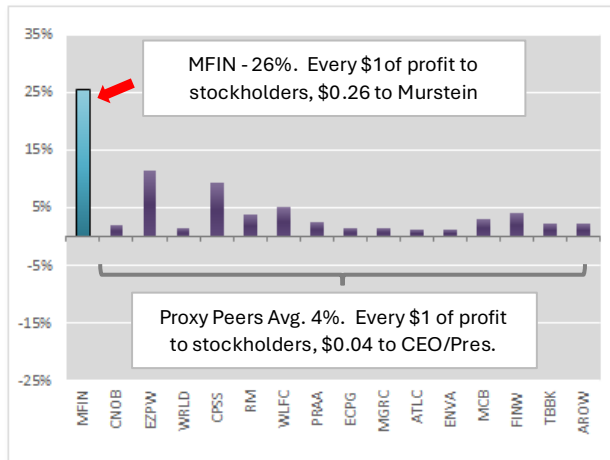
**Source: S&P Capital IQ, DEF14A**  
 At FYE23 and for most prior years, Andrew Murstein was paid substantially more in cash compensation than his proxy peers.

**Figure 3: Highest Paid Executive Cash Compensation as % Net Income to Stockholders at FYE23 versus Proxy Peers**



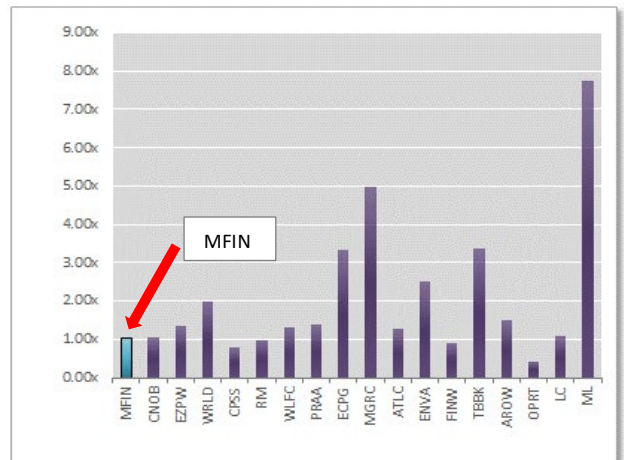
**Source: S&P Capital IQ, DEF14A**  
 At FYE23, Andrew Murstein was the 2<sup>nd</sup> highest paid executive in cash compensation compared to profits to shareholders. Murstein's compensation alone was also 12.5% of total personnel expenses – the highest in the proxy peer group by a wide margin.

**Figure 4: Cum. President's Cash Compensation (2018-2023) as % Cum. Net Income (2018-2023) versus Proxy Peers**



**Source: S&P Capital IQ, DEF14A**  
 Shows the **cumulative CASH compensation paid to Andrew Murstein** from 2018 - 2023 as a percentage of the cumulative reported net profits to stockholders versus compensation peers. He received \$0.26 in cash pay for every \$1.00 in profit to stockholders. Mr. Murstein has been paid **FAR** more relative to the amount of profit he has generated. Companies with negative cumulative net income were excluded.

**Figure 5: Price/TB at 1Q24 versus Proxy Peers**



**Source: S&P Capital IQ**  
 Andrew Murstein's excessive pay is not justified by a higher valuation for MFIN either. MFIN has the 7<sup>th</sup> worst leverage ratio (14:1 debt to tangible equity) and yet it is still one of the lowest valued companies with P/TB ranked 14<sup>th</sup> out of 19 companies for which P/TB values were reported by S&P at 1Q24.

**7. The Board should take its risk management oversight role seriously by demanding full transparency and detailed reporting on the performance of the consumer loan portfolio, particularly the subprime Recreation portfolio. Had this been done 10 years ago, the taxi medallion losses might have been contained.**

As stated in the MFIN's 2023 14A:

"While risk management is primarily the responsibility of our management team, the Board of Directors is responsible for the overall supervision of our risk management activities. The Board's oversight of the material risks faced by our company occurs at both the full board level and at the committee level."

As we enter a period of unprecedented uncertainty, is the Board asking all the questions it needs to ask to ensure risk is being managed and reported appropriately? In prior communication with the Board and management, ZimCal outlined what the Board could do to better monitor performance. This would allow the Board to hold management accountable and proactively work to mitigate risk and loss. ZimCal has repeatedly asked the Board and management to adopt an approach to consumer credit data that mirrors the servicing data provided in a consumer asset-backed securitization and get timely (monthly) updates on performance. Metrics to monitor could include: loan-to-value or loan-to-cost, loss given default; performance stratified by vintage, prime/sub-prime, collateral type, and geography; debt-to-income; prepayment rates; default migration (30 to 60 to 90); and collateral valuation trends, to name a few. This would require control over granular servicing data and robust software to be able to automate the process and reduce errors. Recreation sub-prime loans were ~\$508 million at FYE23 which was 38% of all Recreation loans and 23% of Total loans. Like most collateral types, Recreational Vehicles (and likely every Recreation collateral type) which made up 54% of Recreation Loans at FY23, saw a spike in valuations in 2021 and 2022 but since then retail and wholesale prices have materially<sup>vii</sup> declined. This data needs to be tracked closely, since this risk is substantial, with the data used to better mitigate loss. We encourage the Company to consider alternative ways to risk transfer or risk-mitigate in anticipation of a downside scenario.

**8. The Board should be changed from being classified/staggered to declassified and other shareholder-friendly changes to the Company's Bylaws should be implemented.**

Currently MFIN's Board is a classified board with Directors divided into different classes, each serving staggered terms of three years, with only one class being up for election in any given year. Classified boards reduce accountability since shareholders cannot vote on the entire board annually. This makes it difficult for shareholders to quickly change the Board in response to poor performance or governance issues and can entrench management. We believe that MFIN's Board should be a declassified board, where all directors are elected by shareholders annually. This structure increases accountability and provides shareholders with more influence over the composition of the board. This, in turn, enhances the company's responsiveness to shareholder concerns, as changes to the board can be made faster. Declassified boards are typically viewed as a better governance practice and more attractive to institutional investors. MFIN can also take steps to implement shareholder friendly changes like reducing the "super majority" threshold required for major Bylaw or Board changes; or separating the Chairman/CEO role to name just 2 examples.

## Step 2 – Resolve the SEC Complaint.

**Murstein is being charged by the SEC with fraud and lying to investors and auditors. The SEC lawsuit is the biggest obstacle to regaining credibility with investors and resolving it will give shareholders the ability to quantify the financial impact of the lawsuit on their investment.**

The SEC complaint is serious. MFIN and its management have acknowledged no mistakes or accepted any responsibility. The actions that led to the SEC action may have occurred some time ago, and while the 2 external individuals referenced in the SEC complaint are gone, the individual that directed them (Andrew Murstein) and 2 other interested/non-independent Directors at the time, are still with Company. A brief summary of the SEC allegations:

- Andrew Murstein was involved in illegal touting. In response to critical online reports on Medallion, Murstein paid 2 individuals to create fake identities and anonymously post positive online coverage of MFIN stock. The touters did not disclose they were being paid by MFIN in order to appear objective and credible. One touter posted over 1,000 articles and comments. Medallion posted links to touter articles on their website to give the illusion of positive and objective 3<sup>rd</sup> party coverage. Murstein was confronted about the touting by a journalist in late 2016 and “falsely claimed that he did not know his touter posted anonymously.”
- Murstein was deeply concerned about the default of a subsidiary entity and how that could lead to cross-defaults across MFIN’s borrowings if not resolved. Regulators eventually required Medallion Bank to take additional reserves and restate a regulatory report.
- In response to various pressures, Murstein attempted to increase the value of the Medallion Bank subsidiary to boost earnings and MFIN’s stock price. He fired a valuation firm that refused to do so, after the firm cited no legitimate basis for the increase, especially given the deteriorating Taxi Medallion portfolio. Murstein eventually found a valuation firm willing to increase the Bank’s value and Murstein justified the valuation increase in public filings citing “expressions of interest” and other nebulous factors. The SEC alleges these were false and misleading and that information was concealed from MFIN’s auditors.
- The Company materially overvalued its Taxi Medallion collateral and incorrectly reported LTV for those loans. Murstein headed the Investment Committee and controlled MFIN’s valuation procedures and decisions.
- As a result of improper valuations, MFIN’s shareholders’ equity was overstated by \$140 million at FYE16 and \$115 million at FYE17.
- The SEC “seeks a final judgment: .... (b) ordering Defendants to disgorge any ill-gotten gains they received and to pay prejudgment interest thereon; (c) ordering Defendants to pay civil money penalties...; (d) barring Defendant Murstein from serving as an officer or director of a public company...; and (e) ordering such other and further relief as the Court may deem just and proper.”

### **1. Unless the SEC complaint is resolved with appropriate accountability, investors will remain skeptical.**

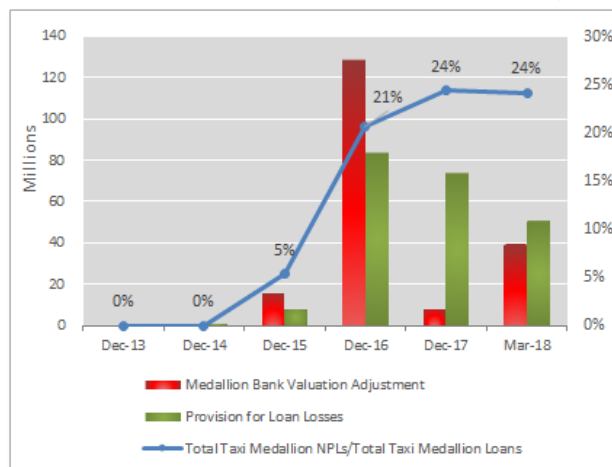
Institutional and retail investors have choices of where to invest. And in the case of institutional investors, must justify their investment choices. With MFIN under an SEC investigation and given the nature of the allegations which, if true, reflect incompetence and a lack of integrity at best, long-term and institutional investors will be skeptical. We believe that investors will not trust the Board, due to their inaction in dealing with the SEC complaint, and they will not trust management. Since so much of MFIN’s loan portfolio valuations (and other Level 3 assets) are highly subjective and dependent on the honest assessment of management about future performance, the breakdown in trust has greater consequences. Given the nature of MFIN’s consumer lending focus, which tends to be more cyclical and riskier than diversified commercial or corporate lending, skepticism is already high as consumer borrowers face higher for longer rates and a potential weakening of the labor market. During the best of times, interest in consumer lenders would be low, during uncertain times (with an SEC lawsuit overhang), interest in MFIN equity or debt could evaporate (as discussed later) and short-sellers could feel emboldened.

### **2. The Company has sought to minimize the seriousness of the SEC investigation through public disclosures; we believe the SEC allegations should *not* be minimized.**

The SEC allegations, despite implications in the Company’s “SEC Litigation” disclosures,<sup>viii</sup> are current and serious for both Andrew Murstein and MFIN. The Company stated that the complaint concerns long-past activity, with

individuals with whom the Company no longer works and is related to the Company’s treatment as a BDC. This is not inaccurate but is by no means a full picture. For example, concerns over touting or inflated asset values would concern the SEC under any accounting treatment, not just while MFIN was a BDC. And while the 2 external individuals referenced in the SEC complaint are gone, Andrew Murstein is very much still in charge as is the power dynamic that allowed his actions. In fact, the most worrying issue in the original complaint, the valuation increase in the Medallion Bank subsidiary and the basis for the increase, is still reflected in the Goodwill and Intangibles accounts (\$171 million value at 1Q24). This is a result of the accounting change from Investment Company accounting to Bank Holding Company accounting and is still a material contributor to balance sheet strength<sup>ix</sup>. Had MFIN remained a BDC, it would eventually have had to *reduce* its Bank valuation as its losses increased and expected future earnings declined. Even though Goodwill and Intangibles are, by definition, not *directly* tied to a physical asset value, they still represent 50% of stockholders’ equity. A Goodwill impairment would have real consequences on MFIN’s income statement and balance sheet. ZimCal has examined the valuation rationale for the Bank which used precedent transaction data to justify a 2.25x-2.50x Price/Tangible Book ratio (a 50% increase over 15 months prior), a 25x – 28x P/E ratio at 1Q18 and a \$320 million fair value<sup>x</sup>. ZimCal found no precedent transactions that corroborated those multiples. ZimCal has asked MFIN to provide the valuation data, including the precedent transactions, and has not received it. Incredibly, this increase in fair value in the Bank at 1Q18 occurred when Bank Taxi Medallion NPLs were at 15.3% and cumulative net charge-offs (2016 to 1Q18) were \$64 million. Serendipitously, MFIN had never increased the value of its Bank subsidiary over its net book value for the 10 years prior to 2015 but coincidentally, as the Taxi Medallion issues became more apparent, Murstein decided the Bank was undervalued and worthy of a mark-up. The Bank valuation increase contributed \$15.5 million and \$129 million in operating income in FYE15 and FYE16 up from \$0 in FYE13 and FYE14. Absent the Bank subsidiary valuation increase, ZimCal estimates MFIN’s cumulative pre-tax operating profit would have been a (\$145 million) loss at 1Q18 (conversion date from investment company to holding company accounting) instead MFIN reported a \$47 million cumulative profit (Figure 6 below).

**Figure 6: The Medallion Bank valuation increase perfectly offset the provisions from the Taxi Medallion loans - this valuation increase is under SEC investigation**



**Source: Company 10Q/10K**

As charge-offs skyrocketed in the Taxi Medallion portfolio, MFIN had to increase loss provisions. These negatively impacted earnings. By marking up its Bank subsidiary, which almost perfectly offset the provision expense, MFIN was able to avoid showing massive losses from 2016 to 2018.

**3. Mr. Murstein’s actions are what led to the lawsuit and yet his and MFIN’s defense are being paid for by shareholders.**

The expenses of defending MFIN and Andrew Murstein have been significant. We estimated legal fees totaled \$7 million using estimates of normalized professional fees before the SEC lawsuit<sup>xi</sup>. Beginning in August 2023, ZimCal repeatedly asked MFIN (and was denied) for details and public disclosure of the cost of the suit and the extent of Directors and Officers (“D&O”) insurance coverage. Since the SEC is looking to permanently ban Andrew Murstein from holding an executive or director role at a public company, he has every incentive to fight the lawsuit, ironically by using money that would go to shareholders. The Board could have elected not to fight

and instead settled but chose not to. Or, as stated above, the Board could have elected to have an independent party investigate the merits of the SEC lawsuit and then decided on a course of action but also chose not to.

**4. SEC lawsuit resolution will allow MFIN shareholders and investors to definitively quantify and account for any monetary damages due to a settlement rather than the current uncertainty.**

The SEC is seeking a judgment ordering the MFIN and Andrew Murstein to “disgorge any ill-gotten gains they received and to pay prejudgment interest thereon...[and] to pay civil money penalties.” What this might eventually mean if the SEC were to prevail is difficult to determine and creates uncertainty. Uncertainty results in lowered demand and a larger risk premium, both of which negatively impact the value of MFIN stock.

**5. The SEC lawsuit is a massive internal distraction and without resolution, MFIN cannot perform at the highest level.**

This statement is self-evident and prevents MFIN from “Step 5: Go on offense”.

### Step 3 – Improve the Management Team.

Bring in a professional, slimmed down management team that has credibility with investors and can guide the company to long-term success.

Strong companies recognize that as circumstances change, so should the skill set of their leadership teams. An entrenched leadership team can stifle new ideas and creativity and the absence of a dynamic Board magnifies the impact. Credibility and trust are also vital to have and difficult to regain if lost. Since balance-sheet lenders have considerable valuation discretion with their loan book, this credibility is even more important.

#### 1. Management must focus on (and be rewarded for) improving core performance and should isolate the noise from Taxi Medallion assets which are all non-core

Despite what appear to be “record” profits in the last 3 years, profits were artificially boosted by a combination of anomalous, ultra-low consumer loan charge-offs, fiscal/monetary stimulus and non-recurring net recoveries related to the Company’s non-core Taxi Medallion assets<sup>xii</sup>. Core performance is what matters and is what should be rewarded. “Core” refers to MFIN’s primary revenue generating and ongoing core business lines, consumer lending and commercial lending, which make up 99.5% of MFIN’s assets. This does NOT include Taxi Medallion assets. Core business lines are business lines and associated services which represent material and recurring sources of revenue, profit or franchise value for an institution. Sustainable cash flows are what will determine the value placed on the enterprise by investors. However, due to non-core Taxi Medallion impact, at FYE23 net income was boosted by 65% and FYE22 net income was boosted by 22%, despite Taxi Medallions assets only being 0.5% and 1.1% of Total Assets at FYE23 and FYE22 (see Figure 7 below).

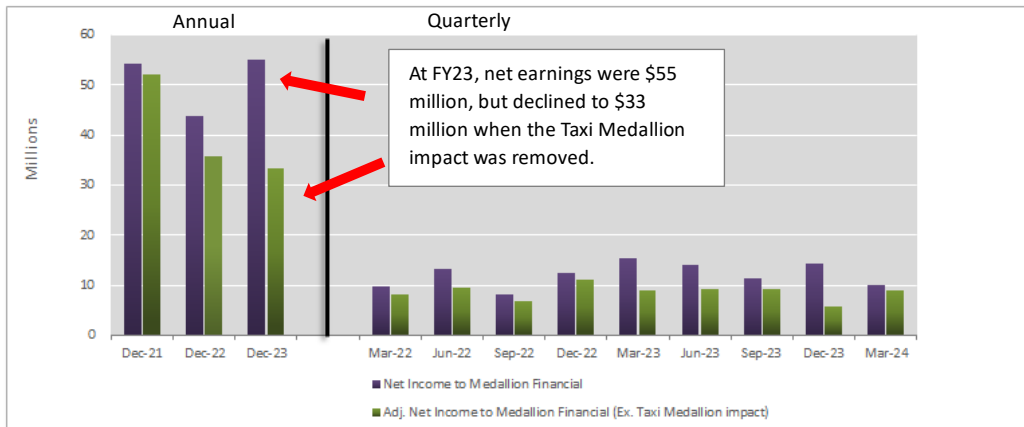
Figure 7: Historical Net Income Showing Adjustments from Taxi Medallion impact

	Annual Actual 12/31/21	Annual Actual 12/31/22	Annual Actual 12/31/23	Quarterly Actual 12/31/23	Quarterly Actual 3/31/24
Net Income to Medallion Financial	54,108	43,840	55,079	14,318	10,024
Less: Taxi Medallion Specific Provisions	(6,937)	(6,302)	(26,316)	(12,119)	(945)
Plus: Write-down of Taxi Medallion collateral in process of FC	5,774	657	745	442	(42)
Less: Gains on sales of Taxi Medallions	(1,788)	(5,448)	(4,992)	(413)	(588)
Plus: Tax Impact Reversal	873	2,937	8,849	3,453	560
Total Adjustments to Eliminate Taxi Medallion Impact	(2,078)	(8,156)	(21,714)	(8,637)	(1,015)
Core Net Income to Medallion Financial (Ex. Taxi Medallion)	52,030	35,684	33,365	5,681	9,009
Provisions (Ex. Taxi Medallion)	11,559	36,361	77,838	22,883	18,146
Taxi Medallion Assets (net ACL)/Total Assets	2.2%	1.1%	0.5%	0.5%	0.4%

Source: Company 10K/Qs

Core net income (Ex. Taxi Medallion) has declined every year since the peak at FYE21. In 2023, non-core Taxi Medallion related income boosted net income by 65%. While the 1Q24 headline core net income trend appeared positive, as our earnings commentary pointed out, 1Q24 core net income was boosted by unpredictable “gains on equity” and an inexplicably low core provision expense (Ex. Taxi Medallion) given the underlying credit headwinds, delinquencies and charge-off rates.

Figure 8: Historical Net Income and Adjusted Net Income Eliminating Taxi Medallion impact



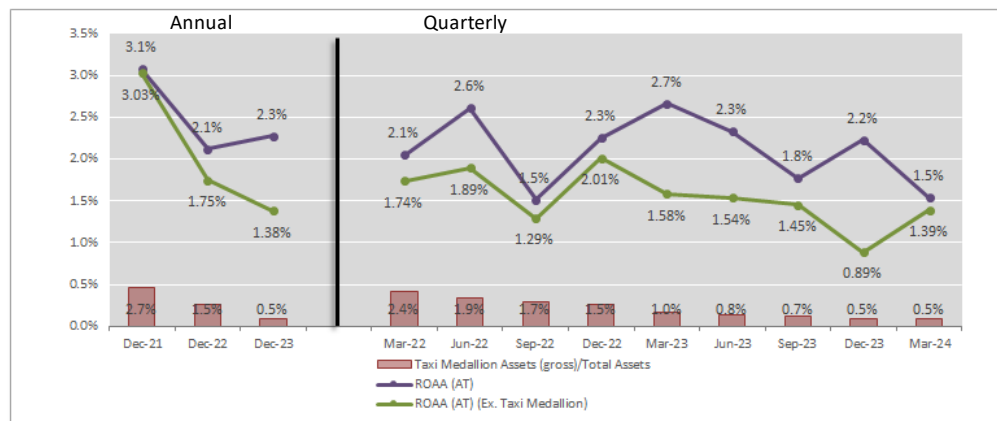
Source: Company 10K/Qs

Shown differently, we see the material impact of Taxi Medallion related income on earnings annually and over the last 9 quarters. Core net income (Ex. Taxi Medallion) has declined every year since the peak at FYE21. All lenders’ profits were artificially boosted by a combination of anomalous, ultra-low consumer loan charge-offs, zero percent rates and fiscal stimulus. Now that delinquency and charge-off trends are climbing, the risks to MFIN’s earnings are substantially higher.

We expect earnings to fall dramatically in 2024 with higher provisions for consumer credit losses, higher consumer loan charge-offs and lower Taxi Medallion recoveries, since Taxi Medallions were only 0.5% of gross assets at FYE23. MFIN will likely have some non-core Taxi Medallion benefits through the gains on sales of foreclosed Taxi Medallion assets on balance sheet. MFIN reported 329 New York City Taxi Medallions and 193 Chicago Taxi Medallions at 1Q24. Based on current non-foreclosure trading activity as reported by the NYC Taxi and Limousine Commission<sup>xiii</sup>, we estimate their combined gross sale value at a high of \$45 million or ~\$36.3 million above carrying value. Figure 7 above shows the “gains on sales of Taxi Medallions” which have averaged ~\$5.2 million over the last 2 years.

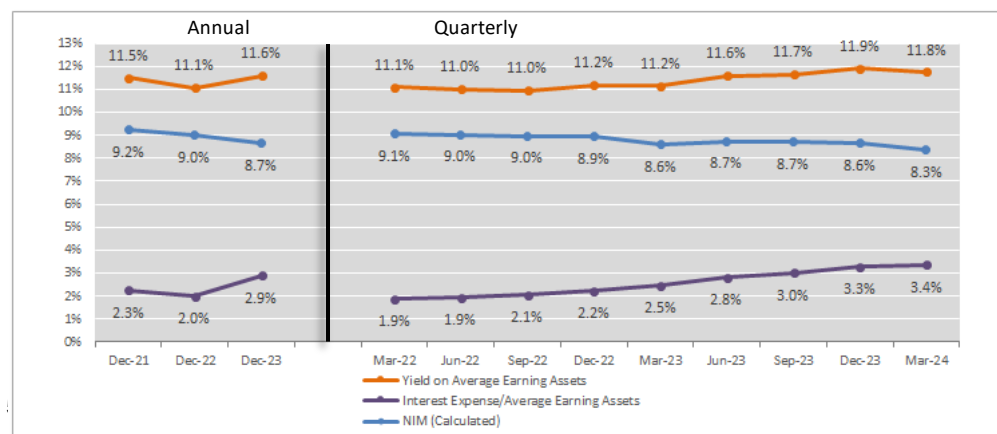
While these Taxi Medallion recoveries and gains on sales are commendable, we note that cumulative Taxi Medallion charge-offs totaled **\$270 MILLION from 2015 through 1Q24** which almost destroyed the Company. This destruction of value could have been avoided or reduced if management had listened to criticism and proactively managed risk (despite their critics’ obnoxious tactics) instead of simply attacking and dismissing them. The fact that the Company’s stock price has declined year-to-date and the Company was valued at just over 1.0x tangible book at 1Q24, shows that the market appears to be discounting the recent “record” profits and may not see them as sustainable, much like we do. To make matters worse, executive bonuses were materially increased by the Taxi Medallion non-core recoveries rather than decreased due to the declining core business performance<sup>xiv</sup>. The executive team should be rewarded for *core* performance instead of having bonuses significantly increased as a result of non-core, non-recurring taxi medallion cash receipts. NIM (which is not as impacted by the Taxi Medallion assets) and core performance (including ROAA, ROAE, net charge-offs, net income) actually significantly declined in 2022 and 2023 versus 2021 and yet management received record salary and bonuses in 2022 and 2023. Over the last 2 years at FYE23, Company’s core ROAA and ROAE materially declined (ROAA dipped below 1% - See Figure 9 below), sub-prime loans were 23% of total loans (albeit an improvement from 32% at FYE21), quarterly recreation and home improvement charge-offs worsened to a combined 3.4% (a ten year high), and funding costs were up ~2.5x in 2 years.

**Figure 9: Historical ROAA and Adjusted ROAA Eliminating Taxi Medallion impact**



**Source: Company 10K/Qs**  
On both an annual and quarterly basis, core ROAA (arguably the most important metric) has declined materially since 2021. Again, we see the distortion of the non-core Taxi Medallion recoveries on returns. This decline was also evident in ROAE.

**Figure 10: Annual & Quarterly yields on earning assets and cost of funds**



**Source: S&P Capital IQ, MFIN 10K/Qs**  
MFIN’s gross yield on its earning assets (mostly loans) has remained relatively flat despite large rate increases in the economy since FYE21. However, rates have increased on MFIN’s liabilities. A flat yield and increasing interest expense has caused net interest income and profits to decline. Q422 and Q423 figures are best estimates using prior and following quarter avg earning assets. MFIN did not provide a quarterly average. Hence the “increase” in 4Q23.

## **2. A lack of trust by investors in MFIN's leadership will cap MFIN's stock valuation**

We believe that institutional and retail investors' trust in management has been permanently damaged. In numerous conversations ZimCal has had with other investors and lenders, MFIN's leadership was raised as a concern. And rightfully so. A lack of deep institutional interest will put a cap on stock valuations and could result in exorbitant and punitive costs for equity capital if MFIN finds itself forced to raise equity in the near-term or long-term. The Russell 3000 inclusion is a positive tailwind. But for active institutional investors that must justify their investment decisions to a committee, there are abundant opportunities to invest in consumer finance companies without the baggage of MFIN. We believe that the lack of institutional interest could also keep MFIN in microcap status (<\$250 million) and could risk continued inclusion in the Russell 3000. A professional management team needs to be brought in to restore trust and unlock MFIN's potential.

## **3. As long as MFIN lacks credibility, its growth opportunities will be capped due to restricted access to capital markets.**

An inability to raise well-priced funding may also severely hinder MFIN's ability to take advantage of opportunities to acquire or expand. MFIN currently has 2 main ways to grow its assets: 1. raise debt or equity and downstream all or a portion to its Bank subsidiary to fuel optimal balance sheet growth; or 2. rely on retained earnings. Due to its access to cheap FDIC-insured deposits, Medallion Bank, rather than MFIN's HoldCo is the optimal entity for high ROA/ROE growth but a required 15% minimum leverage ratio constrains that growth. Due to all the issues referenced in Sections 1 through 3, raising cheap debt (with borrower friendly terms) or non-dilutive equity are virtually impossible. With respect to a debt raise, despite an A- rating for the Company's unsecured note offering in early 2021, the yield/spread was well above contemporaneous A- rated primary and secondary offerings - and this was before the SEC lawsuit. We believe the spread will continue to remain elevated. Investors in MFIN's 2023 debt raises required stricter financial covenants to provide them with additional protection (including a minimum tangible net worth covenant of \$125 million)<sup>xv</sup>. These covenants were absent from outstanding indebtedness. By ZimCal's estimates, had the Company tried to raise unsecured senior debt without covenants, there would have either been no investor interest or, given prospective macro conditions, it would have resulted in at LEAST a 200-250 bps increase in the risk premium or ~\$700,000 - \$900,000 in additional annual interest expense based on a \$36 million refinance. Existing unsecured notes will also trade (if they can be traded at all) at a larger discount/higher spread than similarly rated notes by comparable issuers until the SEC lawsuit is resolved which caps demand and liquidity. This means MFIN (and Medallion Bank) must rely on retained earnings to fuel growth. A top heavy and excessive pay structure means that a large dividend must be paid to the HoldCo in order to service debt and pay salaries which depletes retained earnings. An inability to raise capital or raise cheap capital restricts MFIN's CAPEX and growth opportunities, which could range from growing existing consumer verticals, going into adjacent verticals, making acquisitions, or investing in internal capabilities (technology, servicing etc.).

## **4. Management and the Board must address MFIN's sub-optimal capital structure.**

Post the GFC in 2011, MFIN raised \$26.3 million in non-cumulative preferred equity through its Medallion Bank subsidiary using the US Treasury's Small Business Lending Fund ("SBLF"). This was used to pay off Medallion Bank's TARP Capital Purchase Program securities ("TARP"), a program designed to give banks access to favorable regulatory capital as they were decimated by the GFC. SBLF preferreds initially paid a 1% dividend rate which increased to 9% at 1Q16. Out of the 332 SBLF recipients, only 2 banks still have SBLF funding outstanding: this is not a positive. In 2019, Medallion Bank also raised \$46 million (aggregate liquidation amount) in cumulative preferred stock which currently pays an 8% dividend but this rate will convert to 3MO TSOFR + 6.46% at April 1, 2025. As of this analysis date, the forward rate is expected to be ~4.50% resulting in a ~11% dividend rate. Both of these preferred equity issuances have favorable regulatory capital treatment but they are expensive. Recall that the HoldCo requires a large dividend from the Bank so that it can both service debt and pay operating expenses. This dividend was \$20 million in 2023 and was not enough to cover the \$12.7 million in interest expense and \$20.1 million in non-interest expense (with a substantial portion of that going to Andrew and Alvin Murstein and the Manhattan location overhead expenses). The Bank's preferred equity is structurally senior to all HoldCo debt. The terms of the preferred equity require dividends be paid to the preferred before any

dividends can be declared and paid to the HoldCo. If dividends could not be paid to the HoldCo this would eventually result in a HoldCo debt default once the HoldCo depleted its cash reserves. HoldCo cash reserves stood at \$31 million at FYE23 and \$17.5 million at 1Q24. By eliminating the Bank's preferred equity through a down-streamed equity infusion, part of that capital structure risk would disappear without impacting the Bank's capital ratios. The preferred and the HoldCo debt are expensive in absolute terms, and particularly when compared to the Bank's primary funding source (brokered CDs) which cost 3.17% at the end of 1Q24. MFIN paid 8.08% and 7.71% to its senior unsecured debt and trust preferred securities at the end of 1Q24. MFIN has \$85 million in HoldCo debt coming due in 2026 and 2027 that will likely reprice above its 7.41% current aggregate rate. If MFIN could generate a marginal return on assets well in excess of its marginal preferred and debt costs, this might make the high cost of its capital more palatable, however, MFIN's core ROAA (excluding Taxi Medallion assets impact) has declined materially over the last 3 years and based on a core 0.9% and 1.4% annualized ROAA at 4Q23 and 1Q24 (see Figure 9 above), current preferred equity and debt are not optimal funding solutions. Despite "record earnings" in 2021-2023, MFIN's HoldCo debt load has increased by 20% since FYE20 and by \$18 million in the trailing twelve months.

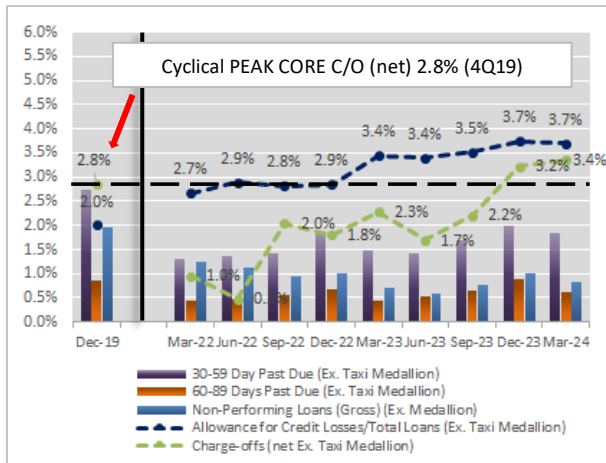
**5. MFIN must right-size the entire executive management teams' size and align its compensation structure to better align with peer companies and stockholder interests.**

MFIN must reduce the size of the executive team to reflect both the lack of complexity of its operations and its small balance sheet. MFIN is almost entirely an indirect consumer with borrowers dealing with intermediaries rather than directly with MFIN. Unlike most lenders, MFIN (and its bank subsidiary) does not have a branch network or customer facing employees in a traditional banking sense. Rather, the bulk of its employees are operationally focused while servicing and collections are mostly outsourced. The current executive team consists of 1 CEO, 3 Presidents, and 2 CFOs. The top 5 paid executives received \$11.4 million in cash compensation at FYE23 or 30% of TOTAL personnel expenses for the entire organization<sup>xvi</sup>. Stock-based compensation was worth an additional \$3.4 million. In ZimCal's 14-year bank investing experience, we have never seen a cost structure this top heavy and for what is almost entirely an indirect-lending operation. There is also a reliance on cash pay, rather than contingent or equity-linked pay which we believe is unaligned with stockholder interests. As previously discussed, the Board should streamline the executive team and ensure its compensation structure is tied to core performance, is not excessive relative to peer companies and is correlated with long-term shareholder earnings and stock performance. Short-sighted decisions, like growing the balance sheet during times of exuberance and over-valued assets, might be profitable in the short-term but could lead to credit issues later and so should be scrutinized and correctly dis-incentivized.

**6. MFIN's leadership made some catastrophically bad decisions in the last crisis and the Company needs a leader who will be able to lead through the next crisis. The cyclical nature of consumer lending means that there is likely to be one in the future.**

The touting and fraud allegations in the SEC lawsuit are the most obvious concerns for investors about Mr. Murstein's behavior, but there are other equally important red flags about current management's decision-making. And to reiterate, consumer lending is volatile and the only way to judge decision-making in a future crisis is to analyze behavior in a past crisis. Mr. Murstein's business decision-making both before and during the Taxi Medallion implosion was terrible. The Company was clearly reactive and in denial<sup>xvii</sup>, rather than proactive and strategic. This behavior could very easily be repeated when faced with another crisis. The Company's dismissal of ZimCal's credit quality warnings based on 2Q23 data, well before consumer loan charge-offs exceeded their cyclical peak and hit a 12 year high at FYE23 and 1Q24 (Figure 10), is what gives us great concerns about management (and the Board's) decision-making and objectivity.

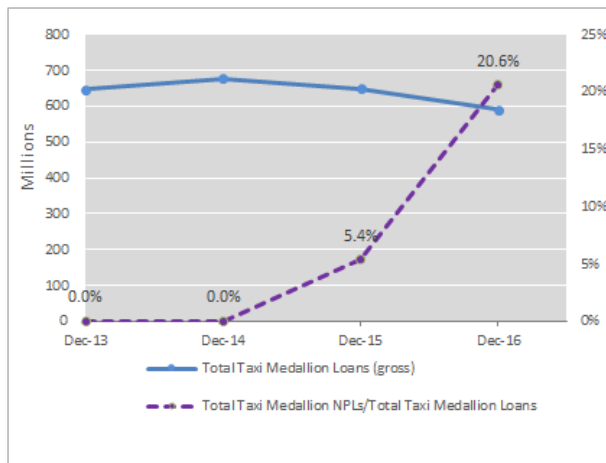
**Figure 10: Core DQ and Charge-Offs (net (Excluding Taxi Medallion Loans))**



**Source: S&P Capital IQ, MFIN 10K/Qs**  
 The credit quality of MFIN's core consumer portfolio (95% of Total Loans) has deteriorated significantly since FYE21. Consumer net charge-offs have exceeded the cyclical high set at 4Q19 and are at their highest levels since 2011.

MFIN makes a consistent and incomplete claim that it intentionally and strategically shifted away from Taxi Medallion financing to consumer lending in January 2017. A “strategic shift” implies careful consideration and an examination of alternative options. The announcement in January 2017 was a decision forced on the Company to make up for its Taxi Medallion loan implosion and earnings hit, rather than a thoughtful plan to strategically change its focus. Despite ample warnings from publications (including Bloomberg) and investor forums<sup>xviii</sup> about Taxi Medallion values and the threat of rideshare ranging back to 2014, MFIN did not de-risk its portfolio or reduce exposure. We believe that management should be rewarded for proactively avoiding obvious risks and punished for ignoring them. Uber entered NYC in 2011 and exploded in popularity while MFIN continued to grow its Taxi Medallion portfolio 12% from FYE11 to FYE14. MFIN only disclosed the rideshare risk in its 2Q14 10Q. The portfolio grew to its year-end peak of \$678 million at FYE14 (or **53% OF TOTAL LOANS**), and only declined 13% over the next two years even as the taxi medallion industry and participants struggled.

**Figure 10: Medallion Loan Portfolio – The Beginning of the End (1Q14 through 4Q16)**



**Source: MFIN 10K/Qs**  
 Even as the Medallion valuation and performance began to crumble, the Company's Medallion loan book barely decreased. Eventually, the Company would realize \$270 million (through 1Q24) in cumulative net charge-offs on \$641 million (at FYE15) of Taxi Medallion loans. Cumulative net charge-offs combine “realized losses” (BDC accounting) and net charge-offs (BHC accounting) and write-downs/gains on foreclosed medallions from Jan 2015 through 1Q24.

NYC Taxi Medallion prices increased over 100% in 6 years (sign of a bubble) then plunged from a peak in 2013 and early 2014 of over \$1 million per medallion to ~\$700,000 at FYE15 to under \$500,000 at FYE16. MFIN is now carrying them at \$75,000 (net). The Taxi Medallion portfolio officially began to implode in 4Q16. However, throughout 2016 the Company, in its public disclosures, spoke optimistically about the Taxi Medallion category and touted “solid credit performance” and “taxi medallion lending[’s] virtually zero losses” in its 8K on May 10<sup>th</sup>,

2016<sup>xix</sup>. In the Company's 3Q16 8K filed November 7, 2016, only 55 days prior to the Taxi Medallion implosion, Medallion stated "We believe the NYC medallion industry is stabilizing." and "To date, our combined actual losses in medallion lending have been just 75 basis points or \$3.6 million in 2016 and were de minimis in prior years...". At FYE16, Taxi Medallion net charge-offs hit **\$30.6 million** and **NPLs were 21%** a HUGE deterioration from \$130,000 in net charge-offs and NPLs of 5% at FYE15. The Taxi Medallion portfolio was still sizeable at \$591 million or ~42% of the entire loan portfolio. Per the SEC's published emails from Murstein, he continued to encourage his touters to put out bullish analysis on Taxi Medallions and MFIN through 4Q16. At the end of the year, MFIN still had huge concentration risk in Taxi Medallion loans. NPLs hit 24% at 4Q17 and 2017 charge-offs were \$74 million comparable to the worst lender performance during the GFC. Through 1Q24, MFIN went on to charge of ~\$270 million or almost 42% of the Taxi Medallion loans outstanding at FYE15. Based on its comments throughout 2016, when credit quality started to deteriorate, MFIN was either not being transparent about the issues with its Taxi Medallion loans or did not know how bad they were; either situation is very concerning. The Company could have de-risked by allowing loans to refinance (it claimed ~40% of loans refinanced each year in its FYE16 10K) or by selling loans at a modest loss. The Company could have introduced covenants for new originations that would lead to an event of default if collateral values plunged or if debt service was insufficient. The Company could have required more cash down to reduce LTV and increase "skin in the game". Rates could also have been raised to compensate for the extra risk (instead Taxi Medallion portfolio rates were 3.93%, 3.96% and 3.88% at FYE14, FYE15 and FYE16 respectively)<sup>xx</sup>. Despite signs of a bubble in Taxi Medallion prices, and the obvious threats from rideshare and taxi-alternatives<sup>xxi</sup>, Mr. Murstein's decades of experience apparently did not allow him to see the very clear threats to taxi medallion lending/pricing. As the Company stated in its FYE17 10K:

"In addition, our management has a long history of owning, managing, and financing taxicab fleets, taxicab medallions, and corporate car services, dating back to 1956."

Incredibly, during the 2016 to 2018 period, when Taxi Medallion losses exploded and market cap went below \$50 million, Mr. Murstein still received \$3.8 million in (cash) bonuses and perks. We are afraid this strategic blind spot could manifest itself again in the future and destroy value.

**7. Reinforcing the need for management change, we believe that a leader driven by emotion rather than facts could exacerbate a future crisis and is a liability. Regardless of the source, the data should never be ignored.**

Again, the only evidence for how management might act in a future crisis is from how they reacted in a past crisis. This emotional response and disregard for the data was evident during the Medallion portfolio implosion. When short sellers targeted MFIN, Mr. Murstein blamed them<sup>xxii</sup> for the stock decline and seemed surprised by the taxi medallion upheaval despite the clear, declining industry trends, the rapid growth of Uber (who entered the NYC market in 2011) and the lack of anti-rideshare regulation. Instead, Murstein should have listened to his critics (even the self-serving ones) and perhaps MFIN could have avoided or materially reduced the \$270 million in subsequent net charge-offs and its stock price plunge. In MFIN's public response to the SEC complaint, they stated "... short sellers were engaged in an online campaign to drive down the Company's stock price for their personal profit by spreading misleading and disparaging information and misrepresenting its business." This may well be true, however, as early as December 2014, approximately 2 years before MFIN started taking huge write-downs on its loan portfolio, one short seller almost exactly predicted what would happen to MFIN and other Taxi Medallion lenders. Based in part on their analysis of ride-share and its impact on the taxi medallion business, HVM Capital stated, "Over time, Medallion Financial will have to start raising its LTV ratio, writing down assets and cutting the dividend, and this process will accelerate into operating earnings declines and massive write-downs."<sup>xxiii</sup> We noted above that various other publications highlighted the risks posed by rideshare specifically and its impact on Taxi Medallion values. And yet Andrew Murstein reacted emotionally, and apparently took the criticism personally as detailed in the SEC complaint. He did not address the criticism professionally in his role as the President of a public company or mitigate what were obvious risks. Even though ZimCal is one of MFIN's largest investors, we have been a recipient of MFIN's caustic approach which tries to distract, deflect and undermine its critics rather than honestly self-reflect and improve. MFIN has not responded in a comprehensive way to any of the business, operational or credit issues ZimCal outlined in its 28-page analysis sent to the Board

in October 2023 or in this 5 Step Plan during the proxy contest. This emotional and dismissive approach is what concerns us. This approach will not result in decisions that will benefit stockholders in the long term.

**8. Management must use forward looking data and not unduly rely on backward looking data. “Check the box” risk disclosures are useless without mitigating action.**

The prior 3 years (post the onset of the pandemic) have been unusual, even against the backdrop of an unusually benign credit period and mostly ZIRP from post-GFC to 2019. That is why it is critically important that management does not base their portfolio credit expectations on backward looking data that does not reflect current risks. This is a common and dangerous mistake to make during times of rapid change. Despite the proactive intentions of the CECL methodology, it is still reliant on subjective inputs from historical experience. As of the most recent quarter, MFIN was still using backward looking assumptions rather than revised forward assumptions:

- At 1Q24, the Bank was still using a 12-month lookback and had almost identical Recreation prepayment speed and average life assumptions as it was using at FYE22 and FYE21 (1.72% prepay and 42 mo. average life). This seems unlikely given the stress in the subprime sector and for consumers in general under a higher for longer rate environment (Figure 10 below).
- Despite loss assumptions ticking up to 343 bps at 1Q24 from 264 bps at 3Q23 and 233 bps at 1Q23 (a positive with respect to reserves but a negative with respect to loss expectations) we would argue this too is overly optimistic, and such a drastic deterioration in 6 and 12 months is disconcerting (Figure 10).

**Figure 10: Average life, loss assumptions and prepayment speed assumptions**

AVERAGE LIFE PROJECTED (MO.)	Annual	Annual	Annual	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
	12/31/21	12/31/22	12/31/23	3/31/23	6/30/23	9/30/23	12/31/23	3/31/24
Recreation	40	39	41	38	41	41	41	42
Home Improvement	32	31	32	31	31	31	32	32
<b>LOSS ASSUMPTION (BPS)</b>								
Recreation	61	166	315	233	242	264	315	343
Home Improvement	25	78	132	83	97	117	132	164
<b>PREPAYMENT SPEED ASSUMPTION (%)</b>								
Recreation	1.75%	1.78%	1.73%	1.78%	1.77%	1.75%	1.73%	1.72%
Home Improvement	2.53%	2.67%	2.60%	2.67%	2.66%	2.64%	2.60%	2.55%

**Source: S&P Capital IQ, MFIN 10K/Qs**

Despite the unprecedented changes in rates, the economy and consumer outlook over the last 3 years, MFIN’s prepayment assumptions and average life of its portfolios has stayed static. Loss assumptions have increased but still appear to be backward looking and reactive rather than forward looking.

The large loss assumptions increase in only 6 months suggests that the Company is playing “catch-up” with loss assumptions rather than being proactive. While the Company had some limited experience managing through a credit crisis in 2007-2009, the size and composition of the consumer portfolio back then was very different. At peak distress during the GFC in 2009, the consumer portfolio was almost entirely Recreation loans with a total balance of \$199 million (15% the size of the current Recreation portfolio) with peak net charge-offs of 5.99% (FFIEC UBPR data). At 4Q23 and 1Q24, net consumer charge-offs for Recreation alone were 4.30% and 4.34% annualized. Projecting through FYE24, if the Allowance for Credit Losses stays flat and annual net Charge-offs remain at 4.30%, that would result in a ~ \$57 million earnings hit which would erase a large portion of the \$86 million in pre-tax operating profit at FYE23, the highest in MFIN’s history. We expect a seasonal recovery in credit quality in 2Q24, as there was in 2Q22 and 2Q23 but now, as then, we expect this to rise as the year progresses.

Our concern is that we see parallels in MFIN’s actions now and its actions during the Taxi Medallion crisis. Only a year before the catastrophic asset quality deterioration at FYE16, the FYE15 reserve was driven by backward looking data. This under-reserving directly resulted in inflated profits and bonuses for 2015 which benefitted

management. Clearly the market was turning quickly and a prudent move would have been to aggressively increase loss provisions and reserve against future losses. The caveat emptor risk disclosures in 10Q/10K filings that mention the impact of rideshare and other competition on Taxi Medallion values were worthless and what I consider a sign of lazy management. Even though Uber launched in NYC in 2011 and was exploding in popularity, the Company only mentioned the risk posed by rideshare in its 2Q14 10Q. It is not enough to recognize potential risks and then list all the things that can go wrong to “check the box”; it is far more important to put a plan in place to mitigate the impact of those risks. Recognizing the risk is step 1, adapting to the risk is step 2. We believe there is a high probability that this behavior could repeat itself with the current Board and management team.

**9. The SEC complaint revealed disturbing insights into Andrew Murstein’s sense of fiduciary responsibility as a Board member.**

The legality of Andrew Murstein’s actions clearly matters, but just as important is what it reveals about how he views his fiduciary duty as a Board member. Andrew Murstein had been a leader in a public company for almost 20 years prior to the period under SEC investigation and we believe he should have certainly known (or sought internal or external legal advice) that his actions could have major implications for both himself and more importantly, MFIN shareholders. Had the SEC not investigated MFIN, none of this behavior may have come to light.

## Step 4 – Cut Expenses.

**Reduce unnecessary expenses to increase profits to shareholders and to be better prepared for a possible economic slowdown and/or lower consumer demand. Operating efficiencies will be critical in a down-cycle.**

Operating expense controls will matter more than ever going forward. Brokered CDs fund the bulk of MFIN's Bank operations and thus far have helped profits as CD rates have reset higher far slower than the rapid increase in short-term rates. Even though MFIN's net interest margin ("NIM") declined, the brokered CD reliance slowed the rate of decline substantially, even though MFIN struggled to pass on interest rate increases to borrowers (Figure 10). But as short-term rates are set to decline over the next 12-24 months this will work against MFIN, as rates will reset lower at a slower pace, and NIM will continue to be pressured. MFIN needs to ignore the last 3 years of unprecedented fiscal stimulus and consumer strength; those days are over and we believe were an anomaly. MFIN must recognize that efficient operations are and will be more critical. We have focused on the easiest operating expenses to address.

**1. Reduce executive compensation to appropriate levels by matching the size of the executive team to the complexity of the Company.**

We estimate that with an executive team that reflects the size and complexity of the Bank, executive compensation could have been reduced by approximately \$19 million before taxes from 2020 to 2022 or an average of \$6.3 million/annum<sup>xxiv</sup>. We adjusted compensation down to levels of rival, top performing FDIC-lenders even though MFIN's core performance was well below theirs. This would have boosted diluted EPS by an estimated \$1.14 or 44% over that period (Figure 11 below). Due to the cyclical nature of consumer lending, and ZimCal's belief that zero percent interest rates were anomalous and will not return, we believe that the Company should build its capital cushion in the near-term (which benefits stakeholders), rather than use this opportunity to enrich themselves. As previously noted, even when the Company lost \$39.9 million in 2018 (its largest loss ever), MFIN's CEO and President received \$291,000 in perquisites to cover personal items including country club memberships, company drivers, social club memberships, car leases, car maintenance and other benefits<sup>xxv</sup>. Mr. Murstein also received a \$1.4 million bonus that year. This suggests a level of tone-deafness that is concerning.

**2. An SEC settlement by MFIN would have reduced substantial past SEC litigation expenses and could reduce substantial future expenses.**

ZimCal estimated that SEC legal fees totaled \$7 million. The Company has D&O insurance, but despite repeated requests, ZimCal has not received any information on ongoing out of pocket expense or coverage and limits on the D&O policy. Avoiding prior SEC expenses would have boosted EPS by an estimated \$0.22 in 2022 (Figure 11). Future impacts are uncertain without disclosures from the Company.

**3. Eliminate or severely reduce the Manhattan lease and footprint.**

MFIN no longer has any material business interests in New York City. The Manhattan lease for the Holding Company's headquarters costs MFIN \$1.8 million per year. The Holding Company employed 33 people at FYE23, not all of whom work at the Manhattan location. The Bank, which generates 94% of consolidated revenues, has a Utah lease that costs ~\$550,000 per year. The Bank employs 128 people or 76% of all employees, most of whom work at the Utah location. Eliminating this lease (ignoring termination fees) would have boosted EPS by \$0.04 in 2023 (Figure 11).

**4. Focus on personnel cost efficiencies with a plan to control and limit collection and servicing costs.**

Great firms are always determining ways to cut expenses, while also rewarding exceptional employees. MFIN should do the same and like other top performing public companies (even those that are highly profitable), MFIN should ensure it is lean without compromising its ability to grow in the future. This initiative would be enhanced by technological investments as outlined below in Step 5. Metrics like efficiency ratios are adequate to show productivity trends over time but for a unique platform like MFIN, are difficult to compare to other lenders. The majority of prime-focused lenders do not staff or prepare for mass delinquencies, special asset management and material collection costs. Therefore, they often are not productive during times of distress, with lower recoveries and higher expenses. We believe that as the economy and new rate regime become more entrenched, defaults

will increase and special servicing and collection skills must become a core competency for any lender aspiring to be exceptional. Collection costs in 2023 were \$6 million while servicing costs were \$9.5 million. Servicing for the entire consumer loan portfolio (~95% of total gross loans) is currently outsourced entirely to Systems and Services Technologies Inc. (“SST”) at an estimated cost of \$91/loan per annum<sup>xxvi</sup>. Collection costs seem unusually high given the levels of non-performing loans and charge-offs (\$49.5 million in consumer net charge-offs and \$26 million in NPLs at FYE23). Greater internal control over collections and servicing would allow greater cost savings.

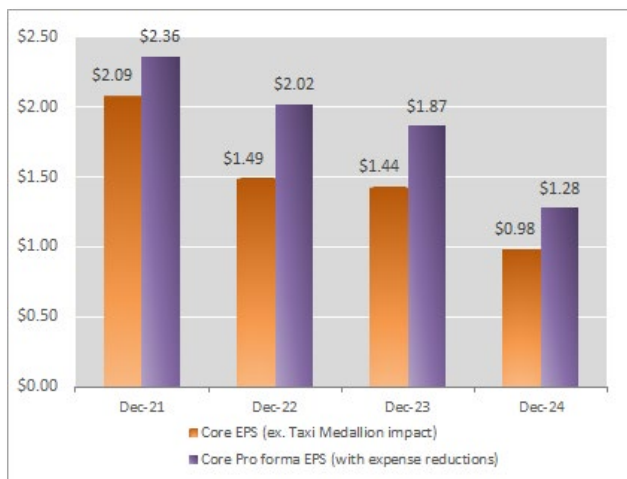
**Figure 11: Earnings and EPS (Pro Forma) impact of expense reductions - historical and projected**

	Annual Actual 12/31/21	Annual Actual 12/31/22	Annual Actual 12/31/23	Annual ZimCal Proj. 12/31/24
Net Income to Medallion Financial	54,108	43,840	55,079	25,591
Total Adjustments to Eliminate Tax Medallion Impact	(2,078)	(8,156)	(21,714)	(2,185)
Core Net Income to Medallion Financial (Ex. Tax Medallion)	52,030	35,684	33,365	23,405
Provisions (Ex. Tax Medallion)	11,559	36,361	77,838	76,135
Taxi Medallion Assets (net ACL)/Total Assets	2.2%	1.1%	0.5%	0.2%
<b>Expense Adjustments</b>				
Total Executive Compensation Adjustments	7,093	7,728	10,634	6,800
Professional Fee Reduction	311	7,054	886	271
Lease Expense Reduction	1,300	1,300	1,300	1,300
Personnel Efficiencies (Ex. C-Suite)	1,125	1,070	1,246	1,515
<b>Total Operating Cost Savings (Before Taxes)</b>	<b>9,829</b>	<b>17,153</b>	<b>14,066</b>	<b>9,886</b>
<b>Total Operating Cost Savings (After Taxes)</b>	<b>6,921</b>	<b>12,611</b>	<b>9,993</b>	<b>6,997</b>
Unadjusted EPS	\$2.17	\$1.83	\$2.37	\$1.08
Core EPS (ex. Tax Medallion impact)	\$2.09	\$1.49	\$1.44	\$0.98
Core Pro forma EPS (with expense reductions)	\$2.36	\$2.02	\$1.87	\$1.28
Increase in Core EPS from expense reductions	13%	35%	30%	30%

**Source: S&P Capital IQ, MFIN 10K/Qs**

FYE24 projections are based on internal ZimCal projections not consensus or analyst projections. ZimCal’s projections incorporate continued elevated charge-offs and delinquencies through 2024. As the table shows, Expense reductions would have resulted in significantly higher core pro forma Net Income/EPS

**Figure 12: Earnings and EPS (Pro Forma) impact of expense reductions - historical and projected**



**Source: S&P Capital IQ, MFIN 10K/Qs**

Viewed differently, common-sense expense reductions would have materially improved core EPS and would materially improve future EPS/net income.

## Step 5 – Go on Offense.

### **Get rid of distractions, focus on the core consumer lending business and invest in technology so that MFIN can better compete in an ultra-competitive consumer lending environment.**

We believe that an FDIC-insured funding base and indirect lending strategy is an excellent foundational platform but it cannot be taken for granted. Consumer lending is a large, fragmented and competitive industry. Unless consumer lenders take on riskier borrower, they are rate and structure “takers”. MFIN is an indirect lender and therefore has very little ability to influence consumer choice, particularly for dealers or contractors that use large platforms that aggregate lenders based on a single consumer application. Therefore, most consumer lenders have very little ability to deviate from market terms. To be successful, lenders must compete primarily on operating efficiency, reduced delinquencies and lower losses and secondarily, on the borrower experience. Technology and data are foundational to that approach. More creative, well-capitalized lending platforms that compete with MFIN provide a huge array of options for dealers and contractors to finance their customers and most see data and analytics as central to their strategy.

#### **1. Invest in technology to boost productivity, analyze underwriting methodologies and loss mitigation which will allow the Company to iterate and improve.**

ZimCal believes that in order to remain competitive in consumer finance, companies will need a full-time Chief Technology officer or equivalent who can lead the investment into technology, elevate its importance and make it a core pillar of the business. This does not mean an Information Technology officer focused on maintaining security, IT issues and infrastructure. MFIN must invest meaningfully in technological improvements to boost productivity both now and to better compete in the future. This could take the form of faster underwriting decisions, more creative underwriting criteria, broader loan distribution platforms, easier entry into collateral adjacent lending niches, earlier potential loss identification, greater employee productivity, automated trend analysis and predictors, to name just a few applications. Data-driven, iterative underwriting based on rapidly changing market conditions, for example, would allow the Company to increase or reduce exposure quickly. The Company might then be able to better lend in the subprime category but with stronger underwriting and appropriate risk-pricing, which are critical in such a volatile lending category. MFIN must realize that data is critical, and controlling and analyzing its data will likely provide a competitive advantage in the future. The rapid technological changes of incumbents and new entrants into the consumer finance space will also have a meaningful impact on spread income as they seek market share with highly scalable platforms. Technological changes have already significantly reduced barriers to entry for new competitors and will continue to do so. Technology has also significantly reduced friction for consumer loan applicants making borrowing easier and more accessible.

To offset the margin and credit deterioration, the Company must look to technology to boost productivity. Improvements in machine learning and associated predictive algorithms could be incorporated far more cheaply than ever before. Without an incumbent servicing platform or technology, the Company has tremendous flexibility to invest in a robust system that could boost productivity and performance substantially. But most critically, this would allow the Company to compete effectively against the increasing competition and capital in the space. Technology investment does not mean superficial (although helpful) changes to the UI or UX of its loan origination tech but rather a systematic overhaul of the way MFIN approaches technology. Technology is transforming consumer lending in ways that we believe will only accelerate, and new well-capitalized entrants will deploy technology to compete more fiercely, and perhaps irrationally, as they seek market share.

#### **2. Be disciplined in underwriting and reduce subprime originations in the near-term until consumer health trends are clearer.**

Charge-offs and delinquencies must be controlled. Subprime loans present the most obvious and near-term risk and delinquencies and charge-offs will likely be driven by subprime performance. At 1Q24, subprime loans were \$491 million or 22% of Total Loans. This has declined from 32% at FYE21 but is still material and due to balance sheet growth is still close to an absolute all-time high (Figure 13 below). Despite an aggregated consumer health profile that appears to be healthy in some respects, we believe that specifically in the Recreation portfolio where

ticket sizes are small (~\$20,000) and loan maturities have been increased by MFIN to boost borrower affordability (new originations averaged 11.5 years at FYE21 but increased to 14.1 years at 1Q24 – see Figure 16 below), there is a selection bias toward borrowers that may be highly susceptible to consumer macro headwinds, particularly inflation and higher interest rates. This appears to be supported by the increased delinquencies and charge-offs in the Recreation portfolio in 1Q24 and 4Q23 (4.34% at 1Q24 and 4.30% at 4Q23 – both the highest in over 10 years) albeit with some seasonality. RV loans make up 54% of Recreation loans and 33% of all Total Loans (Figure 13). Dealer check-ins and Black Book trends show an expected slowing in RV sales and valuations which is translating into materially lowered RV recoveries at auctions or foreclosure (Figure 14 below). As mentioned previously, weakness in the sector seems to be mirroring new and used auto where prices and volume received a post-COVID boost only to predictably decline as fiscal stimulus ended, demand waned and financing costs increased. We believe that subprime and near-prime discretionary spending will continue to soften. MFIN underwriters should take into account the potential for declining collateral values rather than assuming they will stay flat. They should lean on cash down at origination as a credit enhancement and reduce a reliance on inflated collateral values, extended maturities and lenient repayment schemes in the underwriting process. Even as profitability weakens, MFIN must not go down the credit spectrum in the search for higher yields.

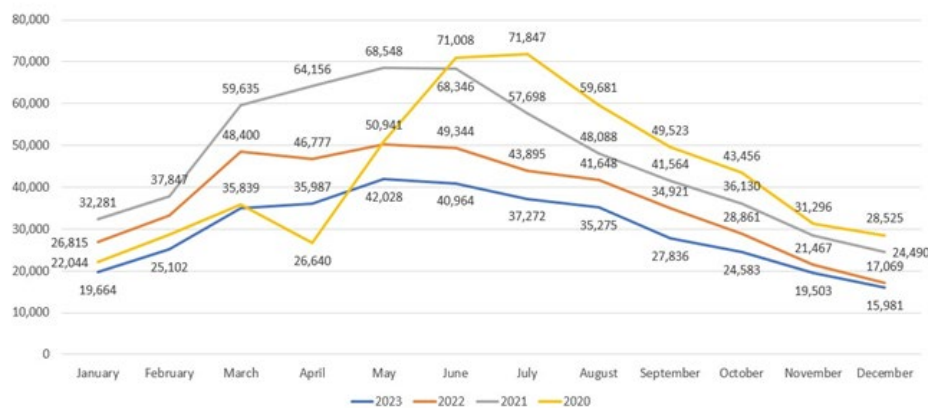
**Figure 13: Recreation Loans Changes in Non-Prime (Subprime) Originations and Balances**

	Annual 12/31/21	Annual 12/31/22	Annual 12/31/23
Non-Prime as % Total Recreation Loans	50%	44%	38%
Non-Prime Loan Balance	480,660	520,745	507,764
Non-Prime Recreation as % of Total Consumer	34%	29%	24%
RVs as % Total Recreation Loans	60%	58%	54%
RV Loan Balance	576,792	686,437	721,560
Non-Prime Recreation Originations	130,296	180,697	152,045
Non-Prime Originations(% Total Originations)[Recreation]	29%	35%	34%

**Source: MFIN and Medallion Bank 10Ks**

Despite the reduction in subprime loan originations, subprime balances are still very high considering the near-term headwinds facing consumer lenders. The absolute subprime loan balance has increased over FYE21 even as it has decreased substantially as a percentage of total Recreation loans. However, overall Recreation loan balances are up 39% at FYE23 over FYE21. MFIN management’s incentive structure explicitly rewarded asset/loan growth without accounting for prime/subprime composition or asset quality.

**Figure 14: North American Retail RV Sales Have Declined since their COVID Peak**

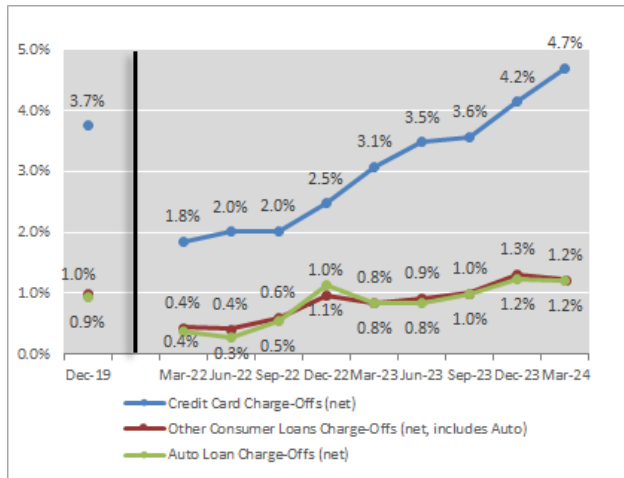


**Source: [RVDA.org](http://RVDA.org)**

MFIN should be disciplined, and not be afraid to shrink its balance sheet, while watching the direction of economy. MFIN management’s incentive structure explicitly rewarded asset/loan growth without accounting for

prime/subprime composition or asset quality. We believe this is a mistake. The Company can and should be more selective and not feel compelled to replace paid-off subprime loans. MFIN should resist the temptation to search for higher yields by taking on excessive risk. The opportunity cost is minimal and short-term, compared to the damage that could be done if subprime struggles. If MFIN can avoid sub-prime credit issues in the near-term, it will then be positioned to compete aggressively in the space in the future. As we discuss in Section 3, high charge-offs for levered lenders can quickly eliminate historical earnings and put them on the defensive. FDIC and securitization data on consumer loans, auto loans and credit cards, shows a rapid spike in delinquencies and charge-offs<sup>xxvii</sup> that could accelerate (See Figure 15 below). This corroborates the Company’s own delinquency and charge-off trends and needs to be closely monitored.

**Figure 15: FDIC QBR 1Q24 – FDIC Bank Consumer Loan Delinquencies**

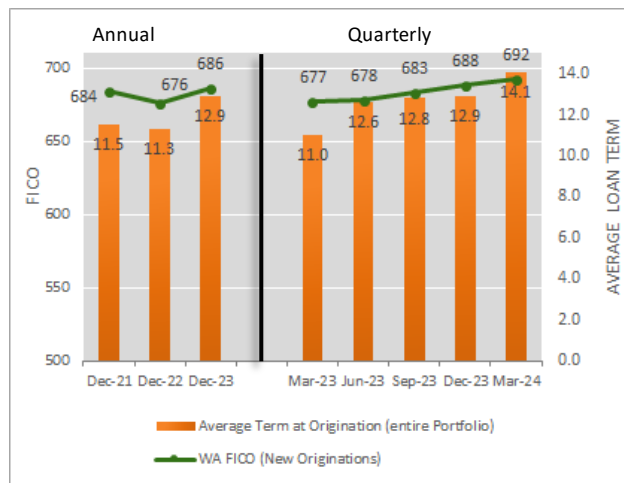


**Source: FDIC**

This represents \$2.1 trillion in bank-held consumer loans. While not directly comparable to Recreation and Home Improvement loans, the trends are very similar to those in MFIN’s portfolio. While FICOs are not disclosed by the FDIC, historically, commercial banks have had the most stringent underwriting standards with little sub-prime exposure.

MFIN has slowed its originations, although this may not be by choice, and has credited “restrictive underwriting” in 10K/Q filings. It is difficult to know what “restrictive underwriting standards” means since there is little disclosure on critical items like vintage performance, prime or non/sub-prime, loan-to-value (“LTV”) at origination and currently, loan-to-cost, borrower debt-to-income, income verification, required cash downpayment, loan term, amortization (interest only, deferred payments for example), or the age of collateral. The modest increase in FICOs is what MFIN has consistently referenced as “restrictive underwriting”; we believe this is both over-simplified and misleading. Subprime originations as a percentage of new originations were significantly higher at FYE23 than they were at FYE21 (Figure 13 above), which is not a sign of “restrictive underwriting”.

**Figure 16: Recreation Loans Changes in FICO and Avg. Loan Term for New Originations**



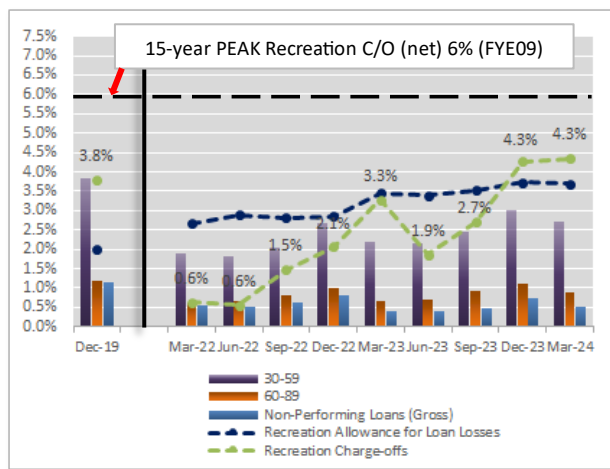
**Source: MFIN and Medallion Bank 10K/10Qs**

FICO increases for new originations have been modest and, as MFIN acknowledges and most good lenders agree, FICO is only one aspect of credit analysis. The lengthening of the average loan term is more concerning because it reflects a concerted effort by MFIN to make its loans more affordable to a (presumably) more cash-strapped borrower demographic – even though \$20,000 loans at 11+ year terms already have low monthly payments. Increased amortization without any extra cash down simply increases loss given default rates.

Paradoxically, at FYE19 (pre-COVID) when Recreation subprime was 68% of Recreation loans, annual net charge-offs were 2.64% but Recreation yields were 15.4%. MFIN was getting paid more for presumably higher risk. At FYE23 At FYE23, subprime was 38% of Recreation and annual net charge-offs were 3.04% (and accelerated in 3Q23 and 4Q23) and yields were 13.1%. At FYE23 and 1Q24, subprime exposure has declined (albeit still at very high levels), yet charge-offs are up (Figure 17 below) and MFIN is getting paid less.

As noted in Figure 10 above, core net charge-offs deteriorated to 3.4% at 1Q24, have exceeded the last cyclical peak at 4Q19, and are higher than they have been since 2011. The GFC annual charge-off peak was 6% at FYE09 and quarterly charge-off peak was 8% in 1Q10. A continued increase, even of 100-200bps, could be catastrophic and depending on its duration, would erase most of the recent annual “record” earnings.

**Figure 17: Recreation DQ and Charge-Offs (net)**



**Source: S&P Capital IQ, MFIN 10K/Qs**  
 The credit quality of MFIN’s Recreation consumer portfolio (61% of Total Loans) has deteriorated significantly since FYE21. Recreation net charge-offs are at their highest levels since 2009.

**3. Develop a servicing platform to capture real-time customer data and get better servicing outcomes rather than outsourcing consumer loan servicing and collections, as is currently done.**

In conjunction with technological investments, ZimCal believes that this is the best way to reduce delinquencies and charge-offs/loss severity, which are the biggest risks a lender faces. Currently, the Company outsources all its consumer loan servicing to SST and paid \$9.5 million in 2023. Most of these loans are performing and require minimal monitoring or human input. External collections activity on loans cost MFIN \$6 million in 2023 (although it is unclear how many Medallion loans this involves). ZimCal believes that developing internal servicing capabilities is critical as a core competency and a way for MFIN to control costs, data and outcomes. Control over the borrower experience will undoubtedly reduce delinquencies and minimize losses. A 0.50% improvement in net recoveries, for example, or a 20% decrease in non-performing loans would have a material impact on earnings. An internal servicing platform could allow scaling beyond MFIN’s balance sheets and result in fee generating opportunities. It could allow an easier expansion into adjacent consumer lending verticals that leveraged MFIN’s core competencies. A servicing platform could be a fee generator for sold or securitized loan products or if used to service the loans of other balance-sheet lenders. Granular data control will also allow robust and complete reporting on riskier loan segments that will give investors confidence that MFIN is in front of or mitigating any potential credit issues.

**4. Improve internal and external disclosures to enhance investor confidence and earn investor support for future initiatives.**

ZimCal has repeatedly offered the Company suggestions for both the data it collects and discloses to investors and the Board. We believe that lenders should be fully transparent about key (primarily credit) metrics and there is absolutely no competitive advantage that is lost as a result. Internally, it allows the Board to quickly understand key risks and hold management accountable and externally it gives investors greater confidence that risks are being managed effectively. Institutions will not take the chance of investing in a “risky” story unless they feel they understand all the risks. Using MFIN’s prior crisis response to gauge a future crisis response, as mentioned previously, the Company’s approach to the Taxi Medallion implosion is a persistent red flag and so transparency is even more crucial. A Board and management team that said, “We believe the NYC medallion industry is stabilizing.” and “To date, our combined actual losses in medallion lending have been just 75 basis points or \$3.6 million in 2016 and were de minimis in prior years...” **only 55 days** (November 7, 2016) before a catastrophic spike in delinquencies and charge-offs (21% Taxi Medallion NPLs and \$31 million charged-off at FYE16) undermines investor confidence<sup>xxviii</sup>. This is what concise and complete disclosures can avoid. Credit disclosure/tracking suggestions provided to the Company in depth by ZimCal included: i. stratification of loan performance by quarterly vintage, collateral type, prime/non-prime, FICO; ii. Disclosures of loan-to-value or loan-to-cost; iii. Debt-to-income levels; iv. Loss-given-default trends; v. prime and subprime yields; vi. Prepayment and WAL by prime/non-prime; and vi. Recreation vehicle wholesale and retail price trends. Other disclosure suggestions provided to the Company included: i. Quarterly holding company only financials (since all debt is serviced by MFIN’s holding company not its bank subsidiary); ii. Avoiding “partial” and misleading disclosures (e.g. the Taxi Medallion impact on EPS was noted, but ROAE, ROAA and “record” earnings were touted without the adjustment); iii. Non-recurring but material expenses (e.g. SEC legal fees); and iv. Transparency on equity investment marks in the Commercial Lending segment.

**5. Reduce or exit distracting, less profitable business lines that do not leverage the Company’s core competencies in the consumer lending business.**

Consumer lending is a competitive and difficult business and requires management’s full attention. MFIN has reduced its non-core business lines gradually over time but in the past, management and the Board decided to invest in: a NASCAR team; a professional Lacrosse team; a fine art business; a taxi advertising business; a taxi medallion business; a taxi medallion broker; a sport media company; and a consulting firm, to name just a few. These are needless distractions and undermine management’s credibility with investors (and the Board that enabled them). MFIN currently has a Commercial Lending segment that represented 5.5% of total consumer loans at FYE23 and averaged 5.4% over the last 3 years. However, the operating expenses of that segment have averaged 9% of the operating expenses of the consumer lending business. The returns (ROE/ROE) on the segment have been very volatile with “gains on equity investments” (by definition an unpredictable revenue source) materially impacting returns. MFIN also continues to carry taxi medallions on its balance sheet with 333 New York City taxi medallions and 206 Chicago taxi medallions at FYE23<sup>xxix</sup>. This exposure needs to go away.

**6. Have the Holding Company be a source of strength rather than a source of weakness to the Bank and allow MFIN to take advantage of future opportunities.**

The Company’s Holding Company and bank subsidiary structure pose unique risks to investors. In the event of distress at the bank, the FDIC and Utah DFI have considerable discretion to protect depositors including stopping dividends to the HoldCo or requiring a HoldCo equity infusion. The former could result in a default and the latter could massively dilute stockholders at the worst possible time. That is why it is critical that MFIN reduces these risks. As discussed in Section 3, loan growth is currently limited by retained earnings with little capacity for an expensive debt raise or dilutive equity raise. Medallion Bank’s leverage ratio of 16.43% at 1Q24 gives only a small cushion above its 15% minimum leverage ratio requirement and could evaporate if NIM declines and credit losses increase. This will impact future business strategy decisions, including any expansion or acquisition decisions. Regulators would be far more supportive of a major strategic shift (given the right opportunity) if capital cushions were more substantial. MFIN should shore up its Holding Company balance sheet, reduce Holding Company operational expenses and reduce the levels of expensive debt that were raised to cover prior

Holding Company operating losses. The Bank’s profits are propping up the Holding Company and instead should be used to support the Bank’s growth, reduce expensive preferred equity or increase tangible book value. Holding company operating expenses were \$20.2 million at FYE23 (Figure 18 below), and the Bank’s operating expenses were \$47.4 million (which includes expenses paid to the Holding Company). Given that the Bank generates ~95% of total revenue, this expense discrepancy is incomprehensible and introduces a level of risk (and potential for default) that most holding company/bank subsidiary lenders avoid. Despite “record earnings” in 2021-2023, MFIN’s HoldCo debt load has *increased* at FYE23<sup>xxx</sup>, by 12% since FYE21 and by \$18 million in FYE23 (Figure 18 below shows why). In 2023, for example, total operating expenses, debt service and dividend payments totaled \$40.9 million with upstreamed dividends from the Bank of \$20 million (\$5 million came from Medallion Capital and was reinvested back) – resulting in a \$21 million shortfall. The Bank could have (and still can) upstreamed more dividends but this would have reduced its Tier 1 leverage ratio. The Bank has only made sufficient net income to cover current HoldCo combined expenses 3 times in the last 10 years – all during the last 3 years of unprecedented (and, we would argue, unsustainable) profitability. High HoldCo expenses, share buybacks and dividend payments are the reason why MFIN has had to raise debt, despite “record” consolidated earnings in 2023. HoldCo cash reserves stood at \$31 million at FYE23 and \$17.5 million at 1Q24 and the cash burn probably played a big part in MFIN’s decision to raise an additional \$5 million in debt in 1H24 with another raise likely in 2H24. MFIN’s HoldCo structure and expenses, combined with weakening core performance, will make future capital raises necessary, not optional, which (if those capital raises are through debt) reduces the “source of strength” the HoldCo provides to its Bank.

**Figure 18: Parent Company Only Income Statement Showing HoldCo Expenses**

	Annual 10K Actual 12/31/21	Annual 10K Actual 12/31/22	Annual 10K Actual 12/31/23
Dividend income	19,000	24,750	25,125
Interest Income	2,554	(119)	1,243
Interest expense	11,209	11,289	12,771
<b>Net Interest Income</b>	<b>10,345</b>	<b>13,342</b>	<b>13,597</b>
Loan Loss Provision	(4,718)	(353)	(310)
<b>Income Before Non-Interest Expense</b>	<b>15,063</b>	<b>13,695</b>	<b>13,907</b>
Total (Non-Interest) Other Expenses	6,224	18,423	20,156
<b>Pre-Tax Operating Income</b>	<b>8,839</b>	<b>(4,728)</b>	<b>(6,249)</b>
Income tax provision (benefit)	(4,452)	(7,940)	(5,291)
<b>Net Income (loss) after taxes before undistributed earnings of subsidiaries</b>	<b>13,291</b>	<b>3,212</b>	<b>(958)</b>
Undistributed earnings (losses) of subsidiaries	45,925	40,628	56,037
<b>Net income (loss) attributable to parent company</b>	<b>59,216</b>	<b>43,840</b>	<b>55,079</b>
<b>Total Holding Company Debt Only</b>	<b>154,000</b>	<b>154,000</b>	<b>172,500</b>
Total Holding Company Combined Expenses	29,134	29,712	32,927
Common Dividends & Share Buybacks	0	28,392	7,934

**Source: MFIN 10Ks**

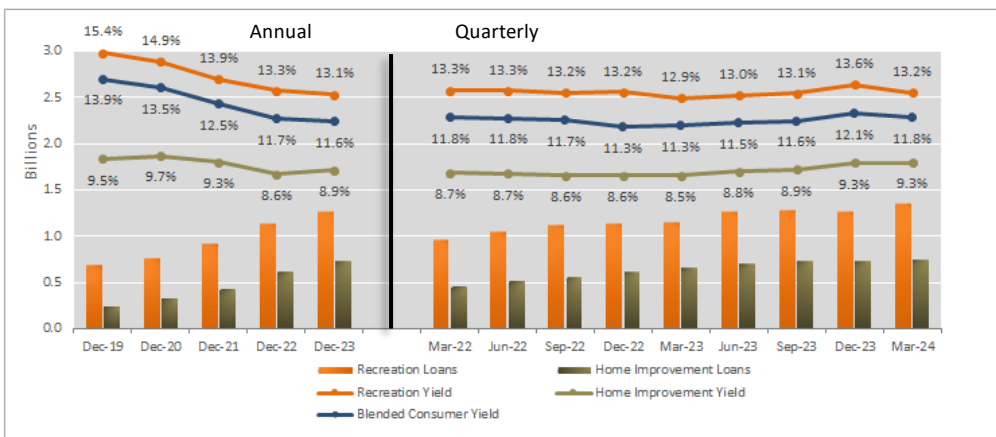
Dividend income (mostly from Medallion Bank with a portion from Medallion Capital) funds the HoldCo. Interest expense is for debt at the HoldCo with recourse to the HoldCo (excludes SBIC debt). Combined expenses show the minimum amount required to service debt and pay operating expenses (with a large portion being Murstein salaries and the Manhattan lease). Dividend income must also fund share buybacks and common dividends.

**7. Reduce the reliance on spread income and focus on increasing fee income.**

This has been a persistent focus for all lenders for some time. MFIN relies almost entirely on “spread income” or net interest income, and particularly in the current rate and economic environment, this has been under pressure for lenders of all sizes and types. As noted previously, MFIN’s net interest margin has been under pressure (declining to 8.39% at 1Q24 from 9.25% at FYE21) and will remain so as the increase in its funding costs

outpaces any yield pick-up on its earning assets (Figure 19 below). On the yield/interest income front, competition in both Recreation and Home Improvement lending is fierce with entities like: Aqua Finance, AppOne, Lending Tree, aggregators for securitization vehicles, commercial banks, various credit unions (who also competed in the Medallion space), bank home equity lender to name a few. Some of the widely used marketplace lending sites both provide loans to and compete with the Company. As an indirect lender without any direct borrower relationships, the Company cannot easily distinguish itself from other lenders and becomes a price and term taker, with the market driving loan structures. Affordability and likelihood of approval will remain the biggest drivers to specific loans and lenders. Sources of loans including home improvement contractors, recreation borrowers, Financial Service Providers (“FSPs”) and dealers are commoditized, transactional relationships and lending options for them are plentiful, particularly in the prime lending space. MFIN sources ~50% of Recreation loans from FSPs (who essentially aggregate smaller dealers’ loans for MFIN and other lenders) adding an additional layer between lender and borrower. The rapid technological changes of incumbents and new “traditional” and fintech entrants into the Recreation and Home Improvement lending space will also have a meaningful impact on yield and spread income. Nimble lending competitors that rely on high productivity and lowered transaction and servicing costs will put an effective “cap” on loan yields and will push other lenders searching for yield and originations to loosen standards or push further down the credit spectrum. This will permanently pressure interest income as would be expected in an increasingly competitive space.

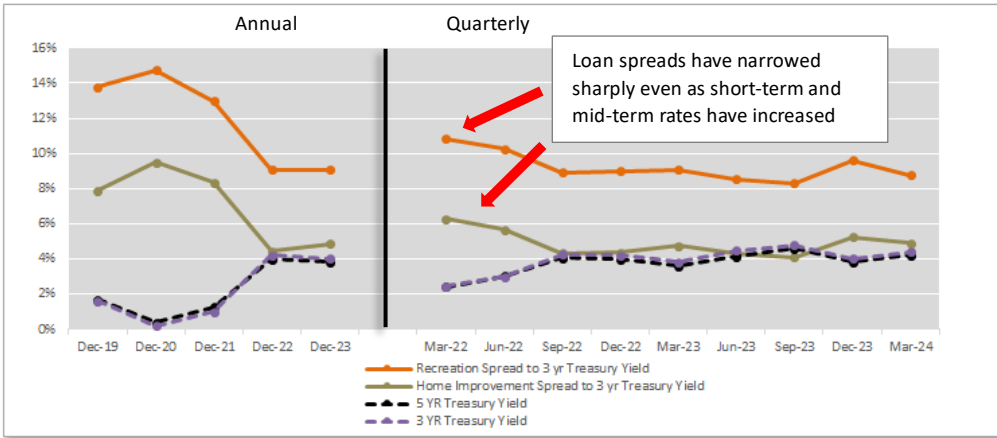
**Figure 19: Annual & Quarterly Yields and Outstanding Balance on Recreation and Home Improvement loans**



**Source: S&P Capital IQ, MFIN 10K/Qs**  
Despite the substantial increase in the index risk free rates, demand and competitive forces meant that MFIN could not pass through a commensurate increase in average yields. MFIN has certainly improved average portfolio credit quality over the 2019 – 2023 period which would also result in a lowered relative yield. 4Q23 data had to be estimated by ZimCal using average of prior quarter and following quarter balances and actual interest income and interest expense.

As the net interest margin declines and provisions and charge-offs remain elevated over anomalous 2021 and 2022 levels, net profits will be under sustained pressure. The impact of competition is probably best illustrated by the Company’s own average yield spreads to the comparable risk-free index (see Figure 20). While this represents a blended yield between prime and non-prime, the trend is obvious and illustrates that the company is a “price-taker” as one would expect in a highly competitive space. The data also show that as the consumer and macro outlook has gotten murkier, the Company is getting paid a smaller risk premium. Yield spreads have declined substantially since 2021 (and over prior periods) which indicates that MFIN is already getting paid less for the risk it is taking (Figure 20). This is likely because consumers are anchored on a certain absolute rate range, regardless of movements in the risk-free rates.

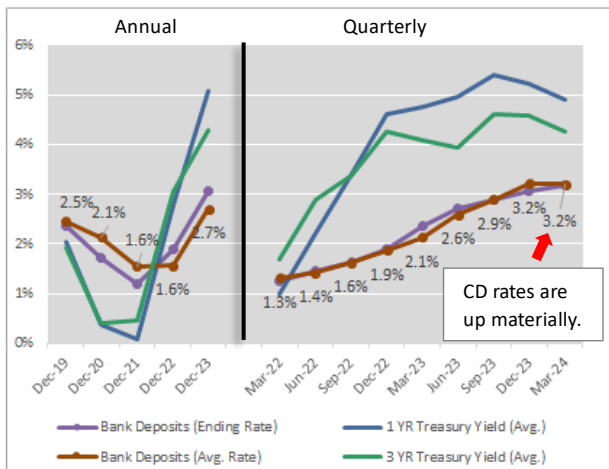
**Figure 20: Yield-Spread of Recreation and Home Improvement loans (relative to the risk-free rate)**



**Source: Federal Reserve Bank NY, S&P Capital IQ, MFIN 10K/Qs**  
 MFIN stated that the weighted average life of its loans was ~ 3 years, so its loan yields should be compared to the 3YR treasury rate. The rise in the 3YR treasury yield annually and over the last 9 quarters has seen a massive decline in the risk premium. In short, MFIN is getting paid less for the risk it is taking which is reflected through lowered ROAA and ROAE.

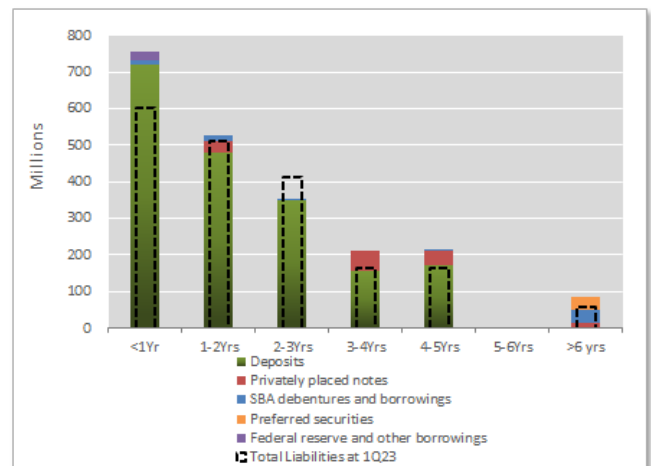
Competitive forces cap loan yields but also contribute to funding cost increases (see Figures 22 and 23 below). MFIN’s primary funding source is brokered CDs whose rates are market driven and whose borrowers are transactional, i.e. without loyalty to the CD issuer. MFIN also has only one main type of funding account type (brokered CDs) despite other available options. MFIN’s CDs maturities are front-loaded with 38% of outstanding balances coming due from 1Q24 to 1Q25 and 25.5% coming due from 1Q25 to 1Q26 (Figure 22 below). Figure 21 shows how MFIN’s CD portfolio, which had a weighted average maturity of 1.8 years at 1Q24, has had rate increases that have lagged their benchmark risk free rates. We expect this lag to continue to hold MFIN’s cost of funds higher even as/when benchmarks decline. MFIN has rotated its CDs into shorter maturities, presumably anticipating rates moving in their favor, with weighted average maturities of the entire portfolio decreasing materially (~3 months) since FYE21. FDIC-insured CD deposits provide a massive funding advantage against non-bank rivals both in terms of cost and stability, but this advantage should not be squandered. MFIN should think through ways to diversify away from spread income and increase fee income. This is not easy. The most obvious fee income generators for consumer lenders are through securitization or loan sales, particularly with servicing retained. This can also result in balance sheet optimization and risk shifting. These may not be the right solution for MFIN or supported by regulators given MFIN’s capitalization, but the Company needs to develop a strategy that is forward thinking rather than stagnant.

**Figure 21: Funding Costs - Medallion Bank CD rates versus AVERAGE 1-Yr and 3-Yr Treasury Yields**



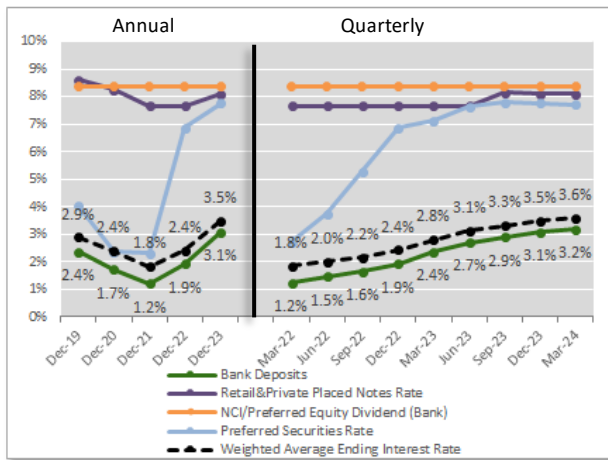
**Source: MFIN and Medallion Bank 10K/10Qs**  
 CDs made up 89% of interest-paying liabilities and 71% of interest expense at 1Q24. Given the historical correlation with the risk-free yields we see CD rates continuing to climb or plateau even if short-term rates decline. This “lag” to the risk free will hurt funding costs as rates fall.

**Figure 22: Liability Maturities (at 1Q24)**



**Source: MFIN and Medallion Bank 10K/10Qs**  
 MFIN’s CD WAM was 1.8 years at 1Q24. Since 38% of CDs mature within 12 months (at 1Q24) and rates have not fallen, a significant portion of MFIN’s brokered CDs will be replaced at much higher rates.

**Figure 23: Cost of Interest-bearing Liabilities and Preferred Equity**



**Source: MFIN and Medallion Bank 10K/10Qs**  
 Brokered CD rates/costs have risen dramatically by 2.5x over the last 2 years as has floating rate debt at the Holding Company.

**8. Pursue new consumer lending lines of business and recognize the limits/desirability of banking-as-a-service for Fintech loan originators.**

MFIN should pursue a new consumer lending line in earnest, using a different approach than the one taken on the Commercial business and Fintech relationships. Fintech or BAAS specifically has exposed lenders to material risks and appears to be disfavored by regulators. New business lines must leverage the Company’s consumer lending and origination knowledge so personnel do not have re-learn skills and can apply prior experiences. This expansion would need to be cautious and would require extensive research to make sure the market and collateral type were fully understood. If MFIN could develop multiple, niche consumer lending expertise in markets that could scale to a few hundred million, for example, this would reduce competition from large lenders and allow meaningful diversification away from Recreation and Home Improvement. Home Improvement in particular is extremely competitive with lots of lending options available to borrowers.

In conclusion, ZimCal sees its “5 Steps To Improvement” as an important step in the right direction and a framework for thinking through how MFIN can be better and how value can be created. This analysis will be updated as we continue to receive updated data.

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<sup>i</sup> Source: MFIN 2024, 2023 and 2022 DEF14As. Peer companies are: Medallion Financial Corp. (MFIN); ConnectOne Bancorp, Inc. (CNOB); EZCORP, Inc. (EZPW); World Acceptance Corporation (WRLD); Consumer Portfolio Services, Inc. (CPSS); Regional Management Corp. (RM); Willis Lease Finance Corporation (WLFC); PRA Group, Inc. (PRAA); Encore Capital Group, Inc. (ECPG); McGrath RentCorp (MGRC); Atlanticus Holdings Corporation (ATLC); Enova International, Inc. (ENVA); CURO Group Holdings Corp. (CURO) – FILED FOR BANKRUPTCY; Lending Tree (TREE); Metropolitan Bank Holding Corp. (MCB); Elevate Credit Inc (ELVT) – PRIVATE; FinWise Bancorp (FINW); The Bancorp Inc (TBBK); Arrow Financial Corporation (AROW); Oportun Financial Corp (OPRT); LendingClub Corp (LC).

<sup>ii</sup> Source: S&P Capital IQ, MFIN and comparison companies' DEF14As.

<sup>iii</sup> Source: S&P Capital IQ, MFIN 10K/Qs, MFIN DEF14A. 2018 net income derived from 1Q18 financial statements under Investment Company accounting and 2Q18-4Q18 financial statements under Bank Holding Company accounting.

<sup>iv</sup> Source: S&P Capital IQ, MFIN and comparison companies' DEF14As.

<sup>v</sup> Source: S&P Capital IQ, MFIN DEF14As.

<sup>vi</sup> Source: S&P Capital IQ, MFIN and comparison companies' DEF14As. Most recent data for all companies was FYE22. This will be updated with FYE23 once available.

<sup>vii</sup> Source: Blackbook.com

<sup>viii</sup> **Source original SEC filing, MFIN 10K, MFIN response to SEC filing.**

MFIN's public statement in response to the SEC filing included, "The actions in question occurred five or more years ago at a time when short sellers were engaged in an online campaign to drive down the Company's stock price for their personal profit by spreading misleading and disparaging information and misrepresenting its business." This seems to be us to be an attempt to put in a vacuum the stock decline and short seller connection (since Mr. Murstein certainly would not have been as moved to engage if the stock price had gone up) and omits the obvious which is that the short sellers were mostly right about the risks in the Taxi Medallion, regardless of their methods, or communication tactics. If the Taxi Medallion loans had been well underwritten loans to good borrowers with strong collateral, the short sellers' antics would have backfired and not impacted MFIN at all in the long-run. In the response referenced above and MFIN's 10K/Qs, there is an emphasis placed on the time elapsed (five or more years ago), that the activity under investigation was when MFIN was a BDC, and that the third parties have been gone since 2016. All these statements are true, but we feel are somewhat irrelevant as to the ethical nature of Andrew Murstein's actions. Mr. Murstein made a judgment call that undermined his credibility and fiduciary duties and those doubts persist today. Whether MFIN was a BDC is also completely irrelevant except that subsidiary re-valuations were significantly easier under investment company accounting than under Bank Holding Company accounting.

<sup>ix</sup> Andrew Murstein and MFIN are being accused by the SEC of inflating the Medallion Bank subsidiaries' value, and that inflated value above book value is still a huge part of MFIN's balance sheet: recorded as Goodwill and Intangibles. This totals \$171 million and is 50% of stockholders' equity. Which means that 50% of MFIN's equity is essentially "discounted" since it is not related to a tangible asset. However, a Goodwill impairment would have material consequences on the income statement and balance sheet of the company. Ignoring the substantial cost to MFIN of defending the SEC lawsuit, this is a clear example of how Andrew Murstein's actions in 2015 to 2018 are still impacting the company currently.

<sup>x</sup> Source: MFIN 2016 and 2017 10Ks.

<sup>xi</sup> Source: S&P Capital IQ, MFIN 10K/Qs.

<sup>xii</sup> Source: S&P Capital IQ, MFIN 2024 and 2022 DEF14A. Core performance should be rewarded not non-core, non-recurring items. For example, removing the impact of the taxi medallion recoveries would have reduced net income to 125% of goal versus 200%. Diluted EPS to 140% rather than 200% and MFIN ROE to 127% rather than 200%. Core performance refers to MFIN's primary revenue generating and ongoing core businesses which does NOT include Taxi Medallion assets. Core business lines are business lines and associated services which represent material and recurring sources of revenue, profit or franchise value for an institution or for a group of which an institution forms part. These future cash flows are what will determine the value placed on the enterprise by investors. ZimCal elected to remove Taxi Medallion assets from core performance when they dropped to less than 5% (net) of total assets, which occurred at FYE20. Taxi medallion adjustments consist of taking net income then subtracting Taxi Medallion specific provision reversals, adding repossessed Taxi Medallion collateral write-downs, subtracting gains on sales of foreclosed Taxi Medallions and adding (reversing) the tax impact of the adjustments. At the pre-tax operating income level, the impact of taxes is not relevant. MFIN includes \$7.3 million in expenses in its Medallion Segment results ostensibly for managing the remaining \$13.7 million in gross Taxi Medallion assets. We believe that expense is ludicrous and inaccurate, especially given that total servicing costs for the \$2.1 billion consumer portfolio were \$9.5 million (FYE23). Therefore, we do not add those Taxi Medallion expenses back when computing income excluding the Taxi Medallion impact.

<sup>xiii</sup> <https://www.nyc.gov/site/tlc/businesses/medallion-transfers.page> - NYC Taxi Medallion data and

<https://data.cityofchicago.org/Transportation/Taxi-Medallion-Transfers-Average-Price-by-Month/aj9i-xni8> - Chicago data

<sup>xiv</sup> As one example, at FYE22, reported Company net income was \$43.8 million. Removing the impact of medallion provisions, gains on medallion sales, medallion write-downs and adding back associated taxes, adjusted core net income would have been \$35.7MM; an 18.5% reduction in net profit or ~34c reduction in EPS (See Figure 6). Tracking core net profit rather than the non-recurring "noise" of a Medallion (gross) segment representing <1.5% of total assets at FYE22, would have resulted in all named executive officers ("NEOs") only being just above their \$33.48 million net income goal at the 50% level (the Company earned \$35.7 million ex. Medallion) rather than being at 129.5% of their goal when the non-core Medallion impact is included. This also would have resulted in the Company's CEO, President and CFO being below their 12.29% ROAE goal at the 50% level (the Company earned 12.1% ex. Medallion – Figure 8) rather than being at 193.4%; and the same group would have been just below their \$1.56 EPS goal at the 100% level (the Company earned \$1.49 ex. Medallion) rather than being at 187.1%.

<sup>xv</sup> Source: MFIN 10K/Qs. Review of covenants of \$39MM 9.25% Senior Note due 2028 dtd 09/29/23.

<sup>xvi</sup> Source: S&P Capital IQ, MFIN DEF14A.

<sup>xvii</sup> Source: 2015-2016 10K/Q and 8Ks. Also see SEC filing. <https://www.sec.gov/litigation/litreleases/lr-25297#:~:text=The%20SEC's%20complaint%20charges%20Murstein,false%20statements%20to%20Medallion's%20auditor>

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<sup>xviii</sup> Investor forums including Seeking Alpha, Motley Fall, and publications including Bloomberg, Vox and the New York Times all discussed the issues Taxi Medallion lenders and owners faced in some detail, 1 to 2 years before the Taxi Medallion loan implosion. The SEC complaint also details extensive publications. An example: “Uber’s Manhattan Invasion Is Killing the Loan Market for Taxis”. Surane, Jennifer. 07/15/2015.

<sup>xix</sup> Source: MFIN 2016 10K & 1Q16 10Q and 2Q16 8K.

<sup>xx</sup> Source: S&P Capital IQ, MFIN 10K/Qs.

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<sup>xxii</sup> Source original SEC filing, MFIN 10K, MFIN response to SEC filing. <https://www.sec.gov/litigation/litreleases/lr-25297#:~:text=The%20SEC's%20complaint%20charges%20Murstein,false%20statements%20to%20Medallion's%20auditor>

<sup>xxiii</sup> “The Downside for Medallion Financial Only Just Beginning.” James Hickman, HVM Capital December 18<sup>th</sup>, 2014.

<https://www.prnewswire.com/news-releases/ride-sharing-to-seriously-impact-taxi-medallion-lenders-new-investment-report-concludes-300011939.html>

<sup>xxiv</sup> Source: S&P Capital IQ, MFIN 10K/Qs, DEF14A.

<sup>xxv</sup> Source: S&P Capital IQ, MFIN 10K/Qs, MFIN DEF14A. 2018 net income derived from 1Q18 financial statements under Investment Company accounting and 2Q18-4Q18 financial statements under Bank Holding Company accounting.

<sup>xxvi</sup> Source: S&P Capital IQ, MFIN 10K/Qs, DEF14A.

<sup>xxvii</sup> Per FDIC FYE23 Quarterly Performance data.

<sup>xxviii</sup> Source: MFIN 2016 10K & 1Q16 10Q.

<sup>xxix</sup> Source: S&P Capital IQ, MFIN 10K/Qs.

<sup>xxx</sup> Source: S&P Capital IQ, MFIN 10K/Qs. Holding company debt increased \$18.5 million at FYE23.

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