UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2020

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________.

001-35542
(Commission File Number)

Customers Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**27-2290659**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

701 Reading Avenue
West Reading PA 19611
(Address of principal executive offices)

(610) 933-2000
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbols	Name of Each Exchange on which Registered
Voting Common Stock, par value $1.00 per share	CUBI	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, par value $1.00 per share	CUBI/PC	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, par value $1.00 per share	CUBI/PD	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, par value $1.00 per share	CUBI/PE	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, par value $1.00 per share	CUBI/PF	New York Stock Exchange
5.375% Subordinated Notes due 2034	CUBB	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the

definitions of “large accelerated filer,” "accelerated filer," “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
(Check One):

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $378,753,650 as of June 30, 2020, based upon the closing price quoted on the New York Stock Exchange for such date. Shares of common stock held by each executive officer and director have been excluded because such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

On February 26, 2021, 31,927,205 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be delivered to shareholders in connection with the 2021 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, as well as other written or oral communications made from time to time by us, contains forward-looking information within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements relate to future events or future predictions, including events or predictions relating to future financial performance, and are generally identifiable by the use of forward-looking terminology such as “believe,” “expect,” “may,” “will,” “should,” “plan,” “intend,” or “anticipate” or the negative thereof or comparable terminology. Forward-looking statements reflect numerous assumptions, estimates and forecasts as to future events. No assurance can be given that the assumptions, estimates and forecasts underlying such forward-looking statements will accurately reflect future conditions, or that any guidance, goals, targets or projected results will be realized. The assumptions, estimates and forecasts underlying such forward-looking statements involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions, which may not be realized and which are inherently subject to significant business, economic, competitive and regulatory uncertainties and known and unknown risks, including the risks described under “Risk Factors” in this Annual Report on Form 10-K, as such factors may be updated from time to time in our filings with the SEC, including our Quarterly Reports on Form 10-Q. Our actual results may differ materially from those reflected in the forward-looking statements.

In addition to the risks described in the “Risk Factors” section of this Annual Report on Form 10-K and the other reports we file with the SEC, important factors to consider and evaluate with respect to such forward-looking statements include:

- the impact of COVID-19 on the U.S. and global economies, including business disruptions, reductions in employment and an increase in business failures, specifically among our clients;
- a prolonged downturn in the economy, particularly in the geographic areas in which we do business, or an unexpected decline in real estate values within our market areas;
- the impact of COVID-19 on our team members and our ability to provide services to our clients and respond to their needs;
- the impact of forbearances or deferrals we are required to provide or that we agree to as a result of customer requests and/or government actions, including, but not limited to our potential inability to recover fully deferred payments from the borrower or the collateral;
- potential claims, damages, penalties, fines and reputational damage arising from litigation and regulatory and government actions relating to our participation in and execution of government programs related to the COVID-19 pandemic or as a result of our action in response to, or failure to implement or effectively implement, applicable federal, state and local laws, rules or executive orders requiring that we grant forbearances or not act to collect amounts due under our loans;
- the effects of changes in accounting policies and practices, as may be adopted by the regulatory agencies, Financial Accounting Standards Board and other accounting standard setters, including the recently-adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (CECL);
- changes in external competitive market factors that might impact our results of operations;
- changes in laws and regulations, including, without limitation, changes in capital requirements under Basel III;
- the potential effects of heightened regulatory requirements applicable to banks with assets in excess of $10 billion;
- changes in our business strategy or an inability to execute our strategy due to the occurrence of unanticipated events;
- our ability to identify potential candidates for, and consummate, acquisition or investment transactions;
- the timing of acquisition, investment or disposition transactions;
- constraints on our ability to consummate an attractive acquisition or investment transaction because of significant competition for those opportunities;
- local, regional and national economic conditions and events and the impact they may have on us and our customers;
- costs and effects of regulatory and legal developments, including the results of regulatory examinations and the outcome of regulatory or other governmental inquiries and proceedings, such as fines or restrictions on our business activities;
- our ability to attract and retain deposits and other sources of liquidity;
- changes in the financial performance and/or condition of our borrowers;
- changes in the level of non-performing and classified assets and charge-offs, which may require us to increase our allowance for credit losses, charge off loans and leases and incur elevated collection and carrying costs related to such non-performing assets;
- changes in estimates of our future loss reserve requirements under CECL based upon our periodic review thereof under relevant regulatory and accounting requirements;
- inflation, interest rate, securities market and monetary fluctuations;

- the planned phasing out of London interbank offered rate, or LIBOR, as a benchmark reference rate;
- timely development and acceptance of new banking products and services and perceived overall value of these products and services by users;
- changes in consumer spending, borrowing and saving habits;
- technological changes;
- our ability to successfully implement our growth strategy, control expenses and maintain liquidity;
- continued volatility in the credit and equity markets and its effect on the general economy;
- the businesses of Customers Bank and any acquisition targets or merger partners and subsidiaries not being integrated successfully or such integration being more difficult, time-consuming or costly than expected;
- material differences in the actual financial results of merger and acquisition activities compared with our expectations, such as with respect to the full realization of anticipated cost savings and revenue enhancements within the expected time frame;
- Customers Bank's ability to pay dividends to Customers Bancorp;
- risks related to planned changes in our balance sheet, including:
    - our ability to reduce the size of our multi-family portfolio;
    - our ability to execute our digital distribution strategy;
    - our ability to manage the risks of change in our loan mix to include a greater portion of consumer loans;
    - our ability to manage originating, servicing and processing forgiveness of PPP loans; and
    - our ability to earn increased net interest income to recover reduced interchange income due to the loss of the small issuer exemption to the Durbin Amendment.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. We do not undertake any obligation to release publicly or otherwise provide any revisions to these forward-looking statements we may make, including any forward-looking statements, to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable law.

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The following list of abbreviations and acronyms may be used throughout this Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

2004 Plan	2012 Amendment and Restatement of the Customers Bancorp, Inc. Amended and Restated 2004 Incentive Equity and Deferred Compensation Plan
2010 Plan	2010 Stock Option Plan
2019 Plan	2019 Stock Incentive Plan
ACL	Allowance for Credit Losses
AFS	Available for sale
ALLL	Allowance for loan and lease losses
AOCI	Accumulated Other Comprehensive Income (Loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	Automated Teller Machine
Bancorp	Customers Bancorp, Inc.
Bank	Customers Bank
BBB spread	BBB rated corporate bond spreads to U.S. Treasury securities
BDO	BDO USA, LLP
BHC Act	Bank Holding Company Act of 1956, as Amended
BMT	BankMobile Technologies, Inc.
BM Technologies	BM Technologies, Inc.
BOLI	Bank-Owned Life Insurance
BRRP	Bonus Recognition and Retention Program
CAA	Consolidated Appropriations Act, 2021
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CBCA	Change in Bank Control Act
CECL	Current Expected Credit Losses
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFPB	Consumer Financial Protection Bureau
Code	U.S. Internal Revenue Code of 1986, as Amended
Company	Customers Bancorp, Inc. and subsidiaries
COSO	Committee of Sponsoring Organizations of the Treadway Commission
COVID-19	Coronavirus Disease 2019
CRA	Community Reinvestment Act
CUBI	Symbol for Customers Bancorp, Inc. common stock traded on the NYSE
Customers	Customers Bancorp, Inc. and Customers Bank, collectively
Customers Bancorp	Customers Bancorp, Inc.
DCF	Discounted cash flow
Department	Pennsylvania Department of Banking and Securities
DIF	Deposit Insurance Fund
Disbursement Business	OneAccount Student Checking and Refund Management Disbursement Services Business
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	United States Department of Justice

ECOA	Equal Credit Opportunity Act
ED	United States Department of Education
EGRRCPA	The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018
EPS	Earnings Per Share
ESG	Environmental, Social and Governance commitments
ESPP	Employee Stock Purchase Plan
EVE	Economic Value of Equity
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Fed Funds	Federal Reserve Board's Effective Federal Funds Rate
Federal Reserve Board	Board of Governors of the Federal Reserve System
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FICO	Fair, Isaac and Company
Fintech	Third-Party Financial Technology
FPRD	Final Program Review Determination
FRB	Federal Reserve Bank of Philadelphia
FTC Act	Federal Trade Commission Act
GDP	Gross Domestic Product
GNMA	Government National Mortgage Association
GLBA	Gramm-Leach-Bliley Act of 1999
Higher One	Higher One Holdings, Inc.
HMDA	Home Mortgage Disclosure Act
HTM	Held to maturity
HUD	Department of Housing and Urban Development
Insiders	Directors, Officers, Employees and 10%-or-Greater Shareholders
Interest-Only GNMA Securities	Interest-Only Government National Mortgage Association Securities
Interstate Act	Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994
Interstate MOU	Memorandum of Understanding between Banking Regulators in the States of New Jersey, New York and Pennsylvania
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
LPO	Limited Purpose Office
Malware	Unauthorized Software
MFAC	Megalith Financial Acquisition Corp.
MMDA	Money Market Deposit Accounts
MMLF	Money Market Mutual Fund Liquidity Facility
MOU	Memorandum of Understanding
NIM	Net interest margin, tax equivalent
NM	Not Meaningful
NPA	Non-Performing Asset
NPL	Non-Performing Loan
NYSE	New York Stock Exchange
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income (Loss)
OFAC	Office of Foreign Assets Control

OREO	Other Real Estate Owned
PATRIOT Act	Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
PCAOB	Public Company Accounting Oversight Board (United States)
PCD	Purchased Credit-Deteriorated
PCI	Purchased Credit-Impaired
PPP	Paycheck Protection Program
PPPLF	FRB Paycheck Protection Program Liquidity Facility
Rate Shocks	Interest rates rising or falling immediately
Religare	Religare Enterprises, Ltd.
RESPA	Real Estate Settlement Procedures Act
ROU	Right-Of-Use
SAG	Special Assets Group
SBA	Small Business Administration
SBA loans	Loans originated pursuant to the rules and regulations of the SBA
SEC	United States Securities and Exchange Commission
Securities Act	Securities Act of 1933, as Amended
Series C Preferred Stock	Fixed-to-floating rate non-cumulative perpetual preferred stock, Series C
Series D Preferred Stock	Fixed-to-floating rate non-cumulative perpetual preferred stock, Series D
Series E Preferred Stock	Fixed-to-floating rate non-cumulative perpetual preferred stock, Series E
Series F Preferred Stock	Fixed-to-floating rate non-cumulative perpetual preferred stock, Series F
SERP	Supplemental Executive Retirement Plan
SOFR	Secured Overnight Financing Rate
Tax Act	2017 Tax Cuts and Jobs Act
TDR	Troubled Debt Restructuring
TILA	Truth in Lending Act
TRAC	Terminal Rental Adjustment Clause
UDAAP	Unfair, Deceptive or Abusive Acts and Practices
UDAP	Unfair or Deceptive Act or Practice
U.S. GAAP	Accounting Principles Generally Accepted in the United States of America
VA	United States Department of Veterans Affairs

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

PART I

Item 1. Business

Customers Bancorp is a bank holding company engaged in banking activities through its wholly owned subsidiary, Customers Bank, collectively referred to as "Customers" herein. The Bank has diversified lending activities that build overall franchise value and a high-tech, high-touch branch-light strategy that serves its customers through a single-point-of-contact private banking strategy with a focus on community banking businesses including commercial and industrial and commercial real estate loans (to borrowers in Pennsylvania, New Jersey, New York City, New England and other geographies), multi-family lending, SBA lending and residential mortgage lending. The Bank also serves specialty niche businesses nationwide, including its commercial loans to mortgage banking businesses, commercial equipment financing, specialty lending and consumer loans through relationships with fintech companies.

In addition, BankMobile, a division of Customers Bank, offered state-of-the-art high-tech digital banking services to consumers, students and the "under banked" nationwide, along with "Banking as a Service" offerings with white label partners. The main sources of BankMobile's revenue were from interchange income from its digital checking and savings accounts, deposit servicing fees from sourcing and servicing deposits, digital checking and savings account fees, and subscription fees paid by colleges and universities for disbursement services. On January 4, 2021, Customers Bancorp completed the divestiture of BankMobile Technologies, Inc., a wholly-owned subsidiary of Customers Bank and a component of BankMobile, through a merger with Megalith Financial Acquisition Corp. In connection with the closing of the divestiture, MFAC changed its name to "BM Technologies, Inc." All of BankMobile's serviced deposits and loans including the related net interest income will remain with Customers Bank after the divestiture. Beginning in first quarter 2021, BMT's historical financial results for periods prior to the divestiture will be reflected in Customers Bancorp's results of operations as discontinued operations. Customers Bancorp's financial condition as of December 31, 2020 and 2019 and the results of its operations for the years ended December 31, 2020, 2019 and 2018 included the assets and liabilities and financial results of BankMobile. As a result of the divestiture, Customers' interchange income, deposit account fees and subscription fees are expected to decrease in the following years. Customers' non-interest expenses, such as salaries and employee benefits, technology, professional services, merger and acquisition related expenses, and other non-interest expenses including reimbursements from the white label relationship associated with BMT are also expected to decrease in the following years. In connection with the divestiture, Customers has also entered into various agreements with BM Technologies, including a transition services agreement, software license agreement, deposit servicing agreement, non-competition agreement and loan agreement for periods ranging from one to ten years. Customers will continue to earn income and incur non-interest expenses associated with these agreements with BM Technologies in the future.

Business Summary

Customers Bancorp and its wholly owned subsidiary, Customers Bank, provide banking products, primarily loans and deposits, to businesses and consumers through its branches, limited production offices and administrative offices in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; and Chicago, Illinois. The Bank has a diversified lending business consisting of geographically in-market community banking offerings such as commercial and industrial loans, commercial real estate loans, multi-family loans, SBA lending and residential mortgage loans. In addition, on a national level, the Bank also provides financing to specialty banking businesses such as commercial loans to mortgage companies, specialty lending, commercial equipment financing and consumer loans through relationships with fintech companies. Through BankMobile, a division of Customers Bank, Customers offered state of the art high tech digital banking services to consumers, students, and the "under banked" nationwide, along with "Banking as a Service" offerings with white label partners. At December 31, 2020, Customers had total assets of $18.4 billion, including total loans and leases, net of the ACL of $15.7 billion, total deposits of $11.3 billion and shareholders' equity of $1.1 billion. Included in total loans and leases was $4.6 billion of Payroll Protection Program (PPP) loans, of which $4.4 billion was pledged to and funded by the Federal Reserve Bank's PPP Liquidity Facility at December 31, 2020.

Customers differentiates itself through its unique single-point-of-contact business strategy executed by very experienced management teams. Customers' strategic plan is to become a leading regional bank holding company through organic core loan and deposit growth and value-added acquisitions. Customers identifies as a high-tech forward thinking bank supported by high touch and differentiates itself from its competitors through its focus on state-of-the-art technology and exceptional customer service. Customers' environmental, social and governance ("ESG") practices emphasize its unwavering commitment to its team members, customers, shareholders, and communities in which we live and work. The primary customers of the Bank are privately held businesses, business customers, not-for-profit organizations and consumers. The Bank also focuses on certain specialty lending areas such as multi-family/commercial real estate lending, lending to commercial mortgage banking businesses and consumer loan purchases from fintech originator platforms. The Bank's lending activities are primarily funded by deposits from its branch-light business model, which seeks higher deposit levels per branch than a typical bank, combined with lower branch operating expenses, without sacrificing exceptional customer service and its digital bank deposit offerings. Customers also creates franchise value through its disciplined approach to acquisitions, both in terms of identifying targets and structuring transactions. Enterprise risk management is an important part of the strategies Customers employs.

Customers launched BankMobile as a key strategic initiative in January 2015, recognizing the product delivery flexibility demanded by the millennial generation and the low cost of the smart phone delivery channel. BankMobile referred to Customers' efforts to build a full-service bank that is accessible to our customers anywhere and anytime through the customer's smartphone or other web-enabled device. As part of the BankMobile strategic initiative, on June 15, 2016, Customers completed the acquisition of substantially all the assets and the assumption of certain liabilities of the Disbursement business from Higher One. Higher One was acquired by a subsidiary of Blackboard, Inc. in third quarter 2016. We continue to refer to that combined business as “Higher One” throughout this document. On January 4, 2021, Customers completed the divestiture of BMT, including the Disbursement business acquired from Higher One and combined with BMT, a component of BankMobile, to MFAC.

BankMobile, including the Disbursement business, provided a nationwide deposit-aggregation platform. BankMobile focused on the aggregation of low-cost deposits and consumer loan offerings through its partnerships with fintech companies, and offered no or low-fee banking, higher than average interest rates on savings and access to over 55,000 ATMs across the U.S. Customers believes that consolidating BankMobile with the Disbursement business uniquely positioned it to become the graduating students' "bank for life" and service each graduate's financial needs throughout their life. BankMobile's revenues were largely derived from net interest income, interchange and card revenue, deposit fees, university card and disbursement fees and university subscription revenue. On January 4, 2021, Customers completed the divestiture of BMT, a component of BankMobile, to MFAC. As a result of the divestiture of BMT, a component of BankMobile, to MFAC, BMT will keep the revenues and fees from these products and services which include interchange and card revenue, deposit fees, university card and disbursement fees and university subscription revenue. All of BankMobile’s serviced deposits and loans including the related net interest income will remain with Customers Bank after the divestiture.

The management team of Customers consists of experienced banking executives led by its Chairman and CEO, Jay Sidhu, who joined Customers in June 2009. Mr. Sidhu brings over 40 years of banking experience, including 20 years as the CEO and Chairman of Sovereign Bancorp. In addition to Mr. Sidhu, a number of the members of the current management team have experience working together at Sovereign with Mr. Sidhu. Many other team members who have joined Customers' management team have significant experience helping build and lead other banking organizations. Combined, the Customers management team has significant experience in building a banking organization, completing and integrating mergers and acquisitions and developing valuable community and business relationships in its core markets.

Background and History

Customers Bancorp was incorporated in Pennsylvania in April 2010 to facilitate a reorganization into a bank holding company structure pursuant to which the Bank became a wholly owned subsidiary of Customers Bancorp (the “Reorganization”) on September 17, 2011. Customers Bancorp’s corporate headquarters are located at 701 Reading Avenue, West Reading, PA 19611. The main telephone number is (610) 933-2000.

The deposits of the Bank are insured by the FDIC. The Bank’s home office is located at 99 Bridge Street, Phoenixville, Pennsylvania 19460. The main telephone number is (610) 933-2000. BankMobile was a division of the Bank, first marketing its deposit products beginning in January 2015. As a division of the Bank, BankMobile's deposits were also insured by the FDIC.

Executive Summary

Customers' Markets

Market Criteria

Customers looks to grow organically as well as through selective acquisitions in its current and prospective markets. Customers believes that there is significant opportunity to both enhance its presence in its current markets and enter new complementary markets that meet its objectives. Customers focuses on markets that it believes are characterized by some or all of the following:

- Population density;
- Concentration of business activity;
- Attractive deposit bases;
- Significant market share held by large banks;
- Advantageous competitive landscape that provides opportunity to achieve meaningful market presence;

- Lack of consolidation in the banking sector and corresponding opportunities for add-on transactions;
- Potential for economic growth over time; and
- Management experience in the applicable markets.

BankMobile products were delivered to customers nationwide via its digital delivery channels, such as a smartphone or other web-enabled device. The BankMobile business was focused on millennials, developing white label relationships with large companies that wish to expand their relationships with their retail customers and employees and the under-banked who can utilize a low-cost banking services provider. As a general retail deposit product and related services provider, the BankMobile segment did not have a dependency on a particular customer, but focused on providing deposit services to college students who receive federal government loans or grants and to customers of its white label partners. BankMobile provided deposit products and services to students on approximately 725 college and university campuses. Besides the student disbursement business, BankMobile focused on the development of its "Banking as a Service" model. As a result of the divestiture of BMT, Customers is no longer providing BankMobile products or services.

Current Markets

Customers' target market is broadly defined as extending from Washington D.C. to Boston, Massachusetts roughly following Interstate 95. As of December 31, 2020, Customers had bank branches or LPOs serving businesses and consumers in the following locations:

Market	Offices	Type
Berks County, PA	4	Branch
Boston, MA	1	LPO
Mercer County, NJ	1	Branch/LPO
New York, NY	1	LPO
Philadelphia-Southeastern, PA	8	Branch/LPO
Portsmouth, NH	1	LPO
Providence, RI	1	LPO
Suffolk County, NY	1	LPO
Westchester County, NY	1	Branch/LPO
Chicago, IL	1	LPO

Customers believes its target market has highly attractive demographic, economic and competitive dynamics that are consistent with its objectives and favorable to executing its organic core loan and deposit growth and acquisition strategies. Additionally, in July 2018, Customers launched a new digital, online savings banking product with a goal of gathering retail deposits nationally. At December 31, 2020, $1.3 billion of retail deposits were outstanding for this product.

The BankMobile suite of deposit products and services was provided nationally through digital delivery channels, such as a smartphone or other web-enabled device. Customers believes that digital delivery without geographic limitations is the future of retail banking.

Prospective Markets

The organic core loan and deposit growth strategy of Customers focuses on expanding market share in its existing and contiguous markets by generating deposits, loan and fee-based services through its Concierge Banking® high-tech/high-touch single-point-of-contact personalized service supported by state-of-the-art technology for its commercial, consumer, not-for-profit and specialized lending markets. While Customers has not acquired any banks since 2011, its bank acquisition strategy is focused on acquisitions that further Customers' objectives and meet its critical success factors. Customers will also consider other acquisitions that will contribute to its banking business. As Customers evaluates potential acquisition and asset purchase opportunities, it believes that there are banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the regulatory burden.

Competitive Strengths

- *Experienced and respected management team.* An integral element of Customers' business strategy is to capitalize on and leverage the prior experience of its executive management team. The management team is led by Chairman and CEO, Jay Sidhu, who is the former CEO and Chairman of Sovereign Bancorp. In addition to Mr. Sidhu, a number of the members of the current management team have experience working together at Sovereign with Mr. Sidhu, including Richard Ehst, President and Chief Operating Officer, as well as Jim Collins, Senior Executive Vice President and Chief Administrative

Officer. During their tenure at Sovereign, these individuals established a track record of producing strong financial results, integrating acquisitions, managing risk, working with regulators and achieving organic growth and expense control. Team leaders Timothy Romig, Pennsylvania and New Jersey Banking Group Executive Vice President; Steve Issa, New England Marketing President and Chief Lending Officer and Lyle Cunningham, Executive Vice President, Managing Director & Market President - New York Metro and Chicago and Specialty Finance; all have over 30 years of experience. In addition, the banking to mortgage companies group, which primarily includes commercial loans (warehouse facilities) to residential mortgage originators is led by Glenn Hedde, President of Warehouse Lending, who brings nearly 30 years of experience in this sector. Customers continues to hire new talent and promote from within the organization to lead its various product offering initiatives. This team has significant experience in successfully building a banking organization as well as building valuable community and business relationships in our core markets.

- *Unique Asset and Deposit Generation Strategies.* Customers focuses on local market lending combined with relatively low-risk specialty lending segments. Local market asset generation provides various types of business lending products (i.e., commercial and industrial loans) and consumer lending products, such as mortgage loans and home equity loans. Customers has also established a multi-family and commercial real estate product line that is primarily focused on the Mid-Atlantic region, particularly New York City. The strategy is to focus on obtaining deposits and refinancing existing loans with other banks, recruiting and retaining strong teams, conservative underwriting standards and minimizing costs. Through the multi-family and commercial real estate products, Customers primarily earns interest income and generates commercial deposits. Customers also maintains specialty lending businesses, commercial loans to mortgage originators and installment loans purchased or originated with third-party fintech companies. Customers' commercial loans to mortgage originators is a national business where Customers provides liquidity to non-depository mortgage companies to fund their mortgage pipelines and meet other business needs. Through the loans to mortgage banking businesses, Customers earns interest and fee income and generates core deposits. Customers' installment loan business is a national business in which Customers purchases and originates installment loans through arrangements with third-party fintech companies. Customers also has digital, online savings banking product that generates core deposits nationally. Through the installment loans and digital, online savings banking product, Customers earns interest and generates core deposits.
- *BankMobile Strategy*. Customers launched BankMobile as a key strategic initiative in January 2015, recognizing the product delivery flexibility demanded by the millennial generation and the low cost of the smartphone delivery channel. BankMobile, including the Disbursement business, provided a nationwide deposit-aggregation platform. BankMobile focused on the aggregation of low-cost deposits and consumer loan offerings through its partnerships with fintech companies, and offered no or low-fee banking, higher than average interest rates on savings and access to over 55,000 ATMs across the U.S. Customers believes that consolidating BankMobile with the Disbursement business uniquely positioned it to become the graduating students' "bank for life" and service each graduate's financial needs throughout their life. BankMobile's revenues were largely derived from net interest income, interchange and card revenue, deposit fees, university card and disbursement fees and university subscription revenue. BankMobile serviced over 2 million deposit accounts at December 31, 2020. Successful execution of the BankMobile strategy, including its consolidation with the Disbursement business through colleges and universities across America and similar white-label partnerships, greatly accelerated BankMobile's ability to achieve profitability. BankMobile's revenues were largely derived from interest income from its installment loan portfolio originated or purchased through arrangements with third-party fintech companies, interchange and card revenue, deposit fees, university card and disbursement fees and university subscription revenue. On January 4, 2021, Customers completed the divestiture of BMT, a component of BankMobile to MFAC.
- *Attractive low-credit risk profile.* Customers has sought to maintain high asset quality and moderate credit risk by using conservative underwriting standards, maintaining a diversified loan portfolio, and being selective with its purchases and originations of installment loans by focusing solely on prime borrowers (considered as borrowers with a FICO score of 660 or above at origination) combined with a risk-adjusted pricing model and early identification of potential problem assets. Customers has also formed a Special Assets Group (SAG) to manage classified and NPAs. As of December 31, 2020, only $71.2 million, or 0.45%, of the Bank's total loan portfolio was non-performing.
- *Superior Community Banking Model.* Customers expects to drive organic core loan and deposit growth by employing its Concierge Banking® and single-point-of-contact strategies, which provide specific relationship managers or private bankers for all customers, delivering an appointment banking approach available 12 hours a day, seven days a week. This allows Customers to provide services in a personalized, convenient and expeditious manner. This approach, coupled with superior technology, including remote account opening, remote deposit capture and mobile banking, results in a competitive advantage over larger institutions, which management believes contributes to the profitability of its franchise and allows the Bank to generate core deposits. The “high-tech, high-touch,” model requires less staff and smaller branch locations to operate, thereby significantly reducing operating costs.
- *Acquisition Expertise.* The depth of Customers' management team and their experience working together and successfully completing acquisitions provides unique insight in identifying and analyzing potential markets and acquisition targets.

The experience of Customers' team, which includes the acquisition and integration of over 35 institutions, as well as numerous asset and branch acquisitions, provides a substantial advantage in pursuing and consummating future acquisitions. Additionally, management believes Customers' strengths in structuring transactions to limit its risk, its experience in the financial reporting and regulatory process related to troubled bank acquisitions, and its ongoing risk management expertise, particularly in problem loan workouts, collectively enable it to capitalize on the potential of the franchises it acquires. With Customers' depth of operational experience in connection with completing merger and acquisition transactions, it expects to be able to integrate and reposition acquired franchises cost-efficiently with a minimum disruption to customer relationships.

Customers believes its ability to operate efficiently is enhanced by its centralized risk-management structure, its access to attractive labor and real estate costs in its markets, and an infrastructure that is unencumbered by legacy systems. Furthermore, Customers anticipates additional expense synergies from the integration of its acquisitions, which it believes will enhance its financial performance.

Segments

Beginning in third quarter 2016, Customers revised its segment financial reporting to reflect the manner in which its chief operating decision makers had begun allocating resources and assessing performance subsequent to Customers' acquisition of the Disbursement business from Higher One and the combination of that business with the BankMobile technology platform late in second quarter 2016.

Management has determined that Customers' operations consist of two reportable segments - Customers Bank Business Banking and BankMobile. Each segment generates revenues, manages risk, and offers distinct products and services to targeted customers through different delivery channels. The strategy, marketing and analysis of these segments vary considerably. For more information on Customers' reportable operating segments, see NOTE 24 - BUSINESS SEGMENTS to the consolidated financial statements.

On January 4, 2021, Customers Bancorp completed the divestiture of BankMobile Technologies, Inc., a wholly-owned subsidiary of Customers Bank and a component of BankMobile, through a merger with Megalith Financial Acquisition Corp. In connection with the closing of the divestiture, MFAC changed its name to “BM Technologies, Inc.” All of BankMobile’s serviced deposits and loans including the related net interest income will remain with Customers Bank after the completion of the divestiture. Beginning in first quarter 2021, BMT’s historical financial results for periods prior to the divestiture will be reflected in Customers' consolidated financial statements as discontinued operations. Customers Bancorp's financial condition as of December 31, 2020 and 2019 and the results of its operations for the years ended December 31, 2020, 2019 and 2018 include the assets and liabilities and financial results of BankMobile. Following the completion of the divestiture of BMT, BankMobile's serviced deposits and loans and the related net interest income will be combined with Customers' financial condition and results of operations as a single reportable segment.

Products

Customers offers a broad range of traditional loan and deposit banking products and financial services, and non-traditional products and services through the successful launch of BankMobile in January 2015, to its commercial and consumer customers. Customers offers an array of lending products to cater to its customers’ needs, including commercial mortgage warehouse loans, multi-family and commercial real estate loans, business banking, small business loans, equipment financing, residential mortgage loans and installment loans. Customers also offers traditional deposit products, including commercial and consumer checking accounts, non-interest-bearing demand accounts, MMDA, savings accounts, time deposit accounts and cash management services. Prior to January 2015, deposit products were available to customers only through branches of Customers Bank. With the successful launch of BankMobile, the acquisition of the Disbursement business from Higher One and the combination of that business with the BankMobile platform and its white-label partnership, Customers has been able to provide banking to millennials, students, middle class American families and underserved consumers throughout the United States. Additionally with the successful launch of Customers' Business Banking's digital, online savings product, it is able to generate deposits nationally.

BankMobile was focused on providing quality low-cost deposit products and related services to its customers, such as no-or-low-fee checking, no opening balance requirements, instant virtual debit cards and similar customer friendly technology enabled services. Customers can also obtain cash free of any fees from over 55,000 ATMs in the United States. BankMobile developed its capabilities to deliver retail loan products, such as personal loans and credit cards to its customers, either as a referral or direct lender, as its technological capabilities have evolved. In 2019, BankMobile's first white label banking partnership went live, offering BankMobile's best in class banking products to the partner's broad customer base.

Lending Activities

Customers focuses its lending efforts on the following lending areas:

- Commercial Lending – Customers' focus is on business banking (i.e., commercial and industrial lending), including small and middle market business banking (including SBA and PPP loans), commercial loans to mortgage companies, commercial real estate and multi-family lending, commercial equipment financing and specialty lending, and
- Consumer Lending – local-market mortgage and home equity lending and the origination and purchase of installment loans through arrangements with third-party fintech companies and other market place lenders.

Commercial Lending

Customers' commercial lending activities are divided into five groups: Commercial Lending; Small and Middle Market Business Banking; Commercial Real Estate and Multi-Family Lending; Mortgage Banking Lending; and Equipment Finance. This grouping is designed to allow for greater resource deployment, higher standards of risk management, stronger asset quality, lower interest-rate risk and higher productivity levels.

The commercial lending group, including commercial and industrial loans, owner occupied commercial real estate loans and specialty lending, focus on building business relationships that provide a complete offering of financial services customized to the present and future needs of each business client.

The small and middle market business banking platform originates loans, including SBA loans, through the branch network sales force and a team of dedicated relationship managers. The support administration of this platform is centralized, including risk management, product management, marketing, performance tracking and overall strategy. Credit and sales training has been established for Customers' sales force, ensuring that it has small business experts in place providing appropriate financial solutions to the small business owners in its communities. A division approach focuses on industries that offer high asset quality and are deposit rich to drive profitability.

The goal of Customers' commercial real estate and multi-family lending group is to manage a portfolio of high-quality commercial real estate and multi-family loans within Customers' covered markets while cross-selling other products and services. These lending activities primarily target the refinancing of loans with other banks using conservative underwriting standards and provide purchase money for new acquisitions by borrowers. The primary collateral for these loans is a first-lien mortgage on the commercial real estate or multi-family property, plus an assignment of all leases related to such property. As part of its strategic initiatives, Customers is deemphasizing its lower-yielding multi-family lending activities and focusing on growing relationship-based commercial real estate and commercial and industrial lending activities.

The goal of commercial loans to mortgage companies is to provide liquidity to mortgage companies. The loans are predominately short-term facilities used by mortgage companies to fund their pipelines from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans that collateralize our commercial loans to mortgage companies are insured or guaranteed by the U.S. Government through one of its programs, such as FHA, VA, or they are conventional loans eligible for sale to Fannie Mae and Freddie Mac. Customers is currently expanding its product offerings to mortgage companies to meet a wider array of business needs. During the years ended December 31, 2020 and 2019, Customers Bank funded $60.9 billion and $31.8 billion of mortgage loans, respectively, to mortgage originators via warehouse facilities. The commercial loans to mortgage companies are reported as loans receivable, mortgage warehouse, at fair value on the consolidated balance sheet.

The equipment finance group offers equipment financing and leasing products and services for a broad range of asset classes. It services vendors, dealers, independent finance companies, bank-owned leasing companies and strategic direct customers in the plastics, packaging, machine tool, construction, transportation and franchise markets. As of December 31, 2020 and 2019, Customers had $288.4 million and $257.9 million, respectively, of equipment finance loans outstanding. As of December 31, 2020 and 2019, Customers had $108.0 million and $89.2 million of equipment finance leases, respectively. As of December 31, 2020 and 2019, Customers had $102.9 million and $93.6 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of $28.9 million and $14.3 million, respectively.

As of December 31, 2020 and 2019, Customers Bank had $14.2 billion and $8.4 billion, respectively, in commercial loans outstanding, composing approximately 89.8% and 83.8%, respectively, of its total loan portfolio, which includes loans held for sale and loans receivable, mortgage warehouse, at fair value and loans receivable, PPP. During the years ended December 31, 2020 and 2019, the Bank originated $2.6 billion and $1.9 billion, respectively, of commercial loans, exclusive of multi-family loan originations, loans to mortgage originators via warehouse facilities, and PPP loans.

Paycheck Protection Program

On March 27, 2020, the CARES Act was signed into law. It contains substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The CARES Act includes the SBA's PPP, a nearly $350 billion program designed to aid small- and medium-sized businesses through federally guaranteed loans distributed through banks. These loans are intended to guarantee an eight-week or 24-week period of payroll and other costs to help those businesses remain viable and allow their workers to pay their bills. On December 27, 2020, the CAA was signed into law, which provides $284 billion in additional funding for the SBA's PPP for small businesses affected by the COVID-19 pandemic. The CAA provides small businesses who received an initial PPP loan and experienced a 25% reduction in gross receipts to request a second PPP loan of up to $2.0 million. On January 11, 2021, the SBA reopened the PPP program to small business and non-profit organizations that did not receive a loan through the initial PPP phase. As of December 31, 2020, Customers has helped thousands of small businesses by originating about $5.0 billion in PPP loans directly or through fintech partnerships. Customers had $4.6 billion of PPP loans outstanding as of December 31, 2020, which are fully guaranteed by the SBA and earn a fixed interest rate of 1.00%. Customers also began accepting applications for the new round of PPP loans on January 11, 2021.

Consumer Lending

Customers provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending are conservative, and lending is offered to solidify customer relationships and grow relationship revenues in the long term. This lending is important in Customers' efforts to grow total relationship revenues for its consumer households. These areas also support Customers' commitment to lower-and-moderate-income families in its market area.

Customers Bank has launched a community outreach program in Philadelphia to finance homeownership in urban communities. As part of this program, Customers is offering an “Affordable Mortgage Product." This community outreach program is penetrating the underserved population, especially in low-and moderate income neighborhoods. The program includes homebuyer seminars that prepare potential homebuyers for homeownership by teaching money management and budgeting skills, including the financial responsibilities that come with having a mortgage and owning a home. The “Affordable Mortgage Product” is offered throughout Customers' assessment areas.

Customers also originates and purchases installment loans through arrangements with third-party fintech companies. Customers performs extensive due-diligence procedures on existing and potential fintech partners and only purchases and originates loans that meet its defined credit parameters, which includes but is not limited to minimum FICO scores and debt to income ratios. As part of its due-diligence process, Customers reviews loan level data, historical performance of the asset and distribution of credit and loss information. Customers does not originate or purchase loans that are considered sub-prime at the time of origination, which Customers considers to be those with FICO scores below 660.

As of December 31, 2020 and 2019, Customers had $1.6 billion and $1.6 billion, respectively, in consumer loans outstanding, comprising 10.3% and 16.2%, respectively, of Customers' total loan portfolio. During the years ended December 31, 2020 and 2019, Customers purchased $0.3 billion and $1.2 billion of consumer loans, respectively.

Private Banking

Beginning in 2013, Customers introduced a Private Banking model for its commercial clients in the major markets within its geographic footprint. This unique model provides unparalleled service to customers through an in-market team of experienced private bankers. Acting as a single-point-of-contact for all the banking needs of Customers’ commercial clients, these private bankers deliver the whole bank – not only to its clients, but to their families, their management teams and their employees, as well. With a world-class suite of sophisticated cash management products, these private bankers deliver on Customers' “high-tech, high-touch” strategy and provide real value to its mid-market commercial clients.

Deposit Products and Other Funding Sources

Customers offers a variety of deposit products to its customers, including checking accounts, savings accounts, MMDA and other deposit accounts, including fixed-rate, fixed-maturity retail time deposits ranging in terms from 30 days to five years, individual retirement accounts, and non-retail time deposits consisting of jumbo certificates greater than or equal to $100,000. Customers also focuses on niche businesses as a source of lower-cost core deposits, including property management and mortgage banking businesses, title and escrow funds, health savings accounts, and Section 1031 of the IRS exchange deposits. Using its "high tech, high touch" model, Customers has experienced strong growth in core deposits. Customers also utilizes wholesale deposit products, money market accounts and certificates of deposits obtained through listing services and borrowings from the FRB and FHLB as a source of funding. These funding sources offer attractive funding costs in comparison to traditional sources of funding given the current interest-rate environment.

Financial Products and Services

In addition to traditional banking activities, Customers provides other financial services to its customers, including: mobile phone banking, internet banking, wire transfers, electronic bill payment, lock box services, remote deposit capture services, courier services, merchant processing services, cash vault, controlled disbursements, positive pay and cash management services (including account reconciliation, collections and sweep accounts). In January 2015, Customers successfully launched BankMobile, America's first mobile platform based full-service consumer bank. In June 2016, Customers acquired the Disbursement business of Higher One and subsequently combined that business with the BankMobile platform. The Disbursement business assisted higher educational institutions in their distributions of Title IV monies to students. In combining the businesses, BankMobile serviced over 2 million deposit accounts at December 31, 2020. On January 4, 2021, Customers completed the divestiture of BMT, including the Disbursement business, to MFAC. BM Technologies continues to service these deposit accounts for Customers.

Competition

Customers competes with other financial institutions for deposit and loan business. Competitors include other commercial banks, savings banks, savings and loan associations, insurance companies, securities brokerage firms, credit unions, finance companies, fintech companies, mutual funds, money market funds and certain government agencies. Financial institutions compete principally on the quality of the services rendered, interest rates offered on deposit products, interest rates charged on loans, fees and service charges, the convenience of banking office locations and hours of operation and, in the consideration of larger commercial borrowers, lending limits.

Many competitors are significantly larger than Customers and have significantly greater financial resources, personnel and locations from which to conduct business. In addition, Customers is subject to regulation, while certain of its competitors are not. Non-regulated companies face relatively few barriers to entry into the financial services industry. Customers' larger competitors enjoy greater name recognition and greater resources to finance wide ranging advertising campaigns. Customers competes for business principally on the basis of high-quality, personal service to customers, customer access to Customers' decision makers and competitive interest and fee structure. Customers also strives to provide maximum convenience of access to services by employing innovative delivery vehicles such as internet and digital banking, and the convenience of Concierge Banking® and our single-point-of-contact business model.

Customers' current market is primarily served by large national and regional banks, with a few larger institutions capturing more than 50% of the deposit market share. Customers' large competitors primarily utilize expensive, branch-based models to sell products to consumers and small businesses, which requires Customers' larger competitors to price their products with wider margins and charge more fees to justify their higher expense base. While maintaining physical branch locations remains an important component of Customers' strategy, Customers utilizes an operating model with fewer and less expensive locations, thereby lowering overhead costs and allowing for greater pricing flexibility.

BankMobile, as a division of Customers Bank, competed for deposit customers with traditional bank branches that may have a physical presence near the university and college campuses it served, large national banks, as well as smaller regional or local banks, with other student and disbursement businesses, both banks and prepaid card providers, local and national loan providers, and with fintech companies. BankMobile developed strategies to offer white label deposit products to commercial entities, again competing with traditional bank deposit product branch delivery channels. In 2019, BankMobile's first white label banking partnership went live, offering BankMobile's best in class banking products to the partner's broad customer base.

ESG

ESG considerations are integrated across our business and incorporated into the policies and principles that govern how we operate. We continuously seek to address some of the practical challenges in balancing short term and long term business trade offs to ensure that our stakeholders and shareholders prosper together. Our approach to ESG management includes promoting sound corporate governance, effective risk management and controls, investing in our team members and cultivating a diverse and inclusive workforce and flexible work environment, supporting and strengthening the communities in which we live, work and serve, and operating our business in a way that demonstrates our dedication to environmental sustainability. Giving back and leading with dignity are the cornerstones of our culture and identity.

Human Capital

Customers' vision is to be recognized as an outstanding financial services company creating distinct experiences for its clients, team members, shareholders, and communities. Attracting, retaining and developing qualified team members and providing them with a distinct employee experience is a key to providing a distinct client experience and is an important contributor to Customers' success.

Team Member Profile

The following table describes the composition of Customers' workforce on December 31, 2020:

Team Members	
Full-time Team Members	820
Part-time Team Members	10
Total Team Members	830
Women	53 %
Minorities	20 %

On January 4, 2021, Customers completed the divestiture of BMT, and approximately 257 team members in the BankMobile business segment became employees of BM Technologies.

Talent Acquisition

Customers' demand for qualified candidates grows as Customers' business grows. Building a talent pool that manages our business strategies that includes digitization and technology advancement that differentiates Customers from its competitors. Customers attracts talented individuals with a combination of competitive pay and benefits. Customers' minimum wage for entry-level positions, following a brief training period, is $15.00 per hour.

Professional Development

Customers' performance management program is an interactive practice that engages team members through performance reviews, goal setting and managers providing on-going feedback to their team members. Customers offers a variety of programs to help team members learn new skills, establish and meet personalized development goals, take on new roles and become better leaders.

Team Member Engagement

Customers recognizes that team members who are involved in, enthusiastic about and committed to their work and workplace contribute meaningfully to the success of the company. On a regular basis, Customers solicits team member feedback through a confidential, company-wide survey on culture, management, career opportunities, compensation, and benefits. The results of this survey are reviewed with the executive management team and are used to update team member programs, initiatives, and communications. Customers has a number of other engagement initiatives, including quarterly town hall meetings with Customers' Chief Executive Officer and other senior leaders.

Additionally, team member engagement initiatives include a robust wellness program where team members can participate in individual and team challenges, both physical as well as health-related educational subjects. Participation in the wellness program has a multi-tiered reward system. All team members are also eligible to participate in CUBI University – a self-paced educational platform which includes TED talks, online learning courses, podcasts and recommended articles. Customers provides tuition assistance to team members pursuing higher education. Lastly, we use Officevibe to survey our team members on a periodic basis on subject matters relating to their work environment, managers, and work life balance.

Other team member initiatives include:

a. Day of Learning in which team members are granted up to 8 hours paid time off to participate in a course, seminar, or class in education.

b. Team Member Referral Program is a strategy and initiative that monetarily rewards team members for successfully referring highly qualified candidates for open positions.

c. Matching Gift Program recognizes the need for individual and corporate support of charitable organizations and, for this reason Customers will match the financial contributions of active team members up to $500 annually.

d. Community Service Day in which team members can earn up to 8 hours paid time off for participating in a qualifying event of community service.

Turnover remains below 10% for the third year in a row.

Succession Planning

Customers is focused on facilitating internal succession by fostering internal mobility, enhancing its talent pool through professional development programs, and structuring its training program to teach skills for 21st century banking.

We have a structured leadership competency measurement program which has recently been rolled out to the entire company with training opportunities included in the rollout.

COVID-19 Response

As the threat of COVID-19 pandemic became clear, we launched a strategy on March 18 ,2020 to protect the health and safety of our Team Members while staying in close communication with all of our customers to ensure all needs were being met quickly and safely. This strategy initially included closing some branches, keeping drive-thru windows and ATMs available while ensuring branch appointments for customers were available in key locations. On November 20, 2020, we decided, with the surge in COVID-19 throughout our markets to institute appointment-only service in all branch locations.

Customers established a Coronavirus Assistance hotline for team members to call if they needed assistance with food delivery, medication pick-up, or anything else. Team members volunteered to run errands for fellow team members.

In addition, Customers took significant steps to introduce collaborative technology including Microsoft Teams, which enabled more than 85% of our team members to work remotely.

Customers enhanced its Paid Time Off Carry over policy from 1 to 2 weeks and extended the period in which team members were able to use this carry over time.

Other actions taken in response to COVID-19 includes: all team members receiving a gift card to help manage their remote expenses. Customers established COVID-19 specific no interest loans to team members. Also, Customers granted a Financial First Responders Day providing a holiday with pay and a $100 gift card.

In July 2020, Customers moved to phase 1 of its roadmap, under which the branch network continued to operate with appointment-only lobby access and staffing levels at non-branch facilities were capped at 25% of normal occupancy. In January 2021, Customers communicated to team members that it will remain in phase 1 of its return-to-work roadmap through second quarter 2021. Customers will develop a multi-tiered return to work plan once the vaccine is widely available later this year.

Customers developed a company-wide Code of Commitment for all team members to read and acknowledge as well as a Managers Tool Kit to facilitate consistent handling of issues as they arose during this difficult time.

In order to protect the health of its customers and team members, and to comply with applicable government directives, Customers has modified its business practices, including restricting team member travel, directing team members to work from home insofar as is possible and implementing its business continuity plans and protocols to the extent necessary. Customers also has made donations that have resulted in more than $1 million, either directly or indirectly, to communities in its footprint for urgent basic needs and has been re-targeting existing sponsorship and grants to non-profit organizations to support COVID-19 related activities.

Available Information

Customers Bancorp’s internet website address is www.customersbank.com. Information on Customers Bancorp’s website is not part of this Annual Report on Form 10-K. Investors can obtain copies of Customers Bancorp’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, on Customers Bancorp’s website (accessible under “About Us” – “Investor Relations” – “SEC Filings”) as soon as reasonably practicable after Customers Bancorp has filed such materials with, or furnished them to, the SEC. Customers Bancorp will also furnish a paper copy of such filings free of charge upon request. Customers Bancorp’s filings can also be accessed at the SEC’s internet website: www.sec.gov.

SUPERVISION AND REGULATION

GENERAL

Customers Bancorp is subject to extensive regulation, examination and supervision by the Pennsylvania Department of Banking and Securities and, as a member of the Federal Reserve System, by the Federal Reserve Board. Federal and state banking laws and regulations govern, among other things, the scope of a bank’s business, the investments a bank may make, the reserves against deposits a bank must maintain, terms of deposit accounts, loans a bank makes, the interest rates it charges and collateral it takes, the activities of a bank with respect to mergers and consolidations and the establishment of branches.

At December 31, 2019, Customers Bank exceeded the $10 billion asset threshold, and accordingly, became subject to the supervision, examination and enforcement jurisdiction of the CFPB in 2020. Additionally, the Bank became subject to higher FDIC premium assessments applicable to institutions with assets exceeding $10 billion in assets and the loss, effective as of July 1, 2020 of the small issuer exemption under the Durbin Amendment to the Dodd-Frank Act, thereby limiting interchange income to $0.21 per transaction plus 5 basis points multiplied by the value of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions.

FEDERAL BANKING LAWS

Interstate Branching. The Interstate Act, among other things, permits bank holding companies to acquire banks in any state. A bank may also merge with a bank in another state. Interstate acquisitions and mergers are subject, in general, to certain concentration limits and state entry rules relating to the age of the bank. Under the Interstate Act, the responsible federal regulatory agency is permitted to approve the acquisition of less than all of the branches of an insured bank by an out-of-state bank or bank holding company without the acquisition of an entire bank, only if the law of the state in which the branch is located permits. Under the Interstate Act, branches of state-chartered banks that operate in other states are covered by the laws of the chartering state, rather than the host state. The Dodd-Frank Act created a more permissive interstate branching regime by permitting banks to establish de novo branches in any state if a bank chartered by such state would have been permitted to establish the branch. For more information on interstate branching under Pennsylvania law, see "Pennsylvania Banking Laws – Interstate Branching" above.

Prompt Corrective Action. Federal banking law mandates certain "prompt corrective actions," which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations have been adopted by the Federal bank regulatory agencies setting forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution that is not adequately capitalized. Under the rules, an institution will be deemed to be "adequately capitalized" or better if it exceeds the minimum Federal regulatory capital requirements. However, it will be deemed "undercapitalized" if it fails to meet the minimum capital requirements, "significantly undercapitalized" if it has a common equity tier 1 risk-based capital ratio that is less than 3.0%, or has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, or a leverage ratio that is less than 3.0%, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain restrictions including a prohibition on the payment of dividends, a limitation on asset growth and expansion, and in certain cases, a limitation on the payment of bonuses or raises to senior executive officers and a prohibition on the payment of certain "management fees" to any "controlling person." Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors or sale of the institution to a willing purchaser. If an institution is deemed to be "critically undercapitalized" and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

Safety and Soundness; Regulation of Bank Management. The Federal Reserve Board possesses the power to prohibit a bank from engaging in any activity that would be an unsafe and unsound banking practice and in violation of the law. Moreover, Federal law enactments have expanded the circumstances under which officers or directors of a bank may be removed by the institution's Federal supervisory agency; restricted and further regulated lending by a bank to its executive officers, directors, principal shareholders or related interests thereof; restricted management personnel of a bank from serving as directors or in other management positions with certain depository institutions whose assets exceed a specified amount or which have an office within a specified geographic area; and restricted management personnel from borrowing from another institution that has a correspondent relationship with the bank for which they work.

Capital Rules. Federal banking agencies have issued certain "risk-based capital" guidelines, which supplemented existing capital requirements. In addition, the Federal Reserve Board imposes certain "leverage" requirements on member banks. Banking regulators have authority to require higher minimum capital ratios for an individual bank or bank holding company in view of its circumstances.

The risk-based capital guidelines require all banks and bank holding companies to maintain capital levels in compliance with "risk-based capital" ratios. In these ratios, the on-balance-sheet assets and off-balance sheet exposures are assigned a risk-weight based upon the perceived and historical risk of incurring a loss of principal from that exposure. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

The risk-based capital rules also may consider interest-rate risk. Institutions with interest-rate risk exposure above a normal level would be required to hold extra capital in proportion to that risk. Customers currently monitors and manages its assets and liabilities for interest-rate risk, and management believes that the interest-rate risk rules which have been implemented and proposed will not materially adversely affect its operations.

The Federal Reserve Board's "leverage" ratio rules require member banks which are rated the highest in the composite areas of capital, asset quality, management, earnings and liquidity to maintain a ratio of "Tier 1" capital to "adjusted total assets" of not less than 3.0%. For banks which are not the most highly rated, the minimum "leverage" ratio will range from 4.0% to 5.0%, or higher at the discretion of the Federal Reserve Board, and is required to be at a level commensurate with the nature of the level of risk of the bank's condition and activities.

For purposes of the capital requirements, "Tier 1," or "core," capital is defined to include common shareholders' equity and certain noncumulative perpetual preferred stock and related surplus. "Tier 2," or "qualifying supplementary," capital is defined to include a bank's ACL up to 1.25% of risk-weighted assets, plus certain types of preferred stock and related surplus, certain "hybrid capital instruments" and certain term subordinated debt instruments.

In July 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Bancorp and Customers Bank. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012 and implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010 and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include risk-based capital and leverage ratios, were phased in from 2015 to 2019, and refine the definition of what constitutes "capital" for purposes of calculating those ratios. Effective January 1, 2015, the new minimum capital level requirements applicable to the Bancorp and Customers Bank under the final rules were:

(i) a common equity Tier 1 risk-based capital ratio of 4.5%;

(ii) a Tier 1 risk-based capital ratio of 6%;

(iii) a total risk-based capital ratio of 8% and

(iv) a Tier 1 leverage ratio of 4% for all institutions.

The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements.

The capital conservation buffer was phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer was 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.500% for 2019 and thereafter.

Effective January 1, 2019, the minimum capital level requirements (including the capital conservation buffer) applicable to the Bancorp and Customers Bank under the final rules are:

(i) a common equity Tier 1 capital ratio of 7.0%;

(ii) a Tier 1 risk-based capital ratio of 8.5%; and

(iii) a total risk-based capital ratio of 10.5%.

Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if their capital levels fall below the minimum capital level plus capital conservation buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the "countercyclical buffer," of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to "advanced approach banks" (i.e., banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes the Bancorp and the Bank. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009, (which includes the Bancorp) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010, as additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

In addition, the final rules provide for smaller banking institutions (less than $250 billion in consolidated assets) an opportunity to make a one-time election to opt out of including most elements of accumulated other comprehensive income (loss) in regulatory capital. Importantly, the opt-out excludes from regulatory capital not only unrealized gains and losses on available for sale debt securities, but also accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit postretirement plans. The Bank selected the opt-out election in its March 31, 2015 Call Report.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions took effect on January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as "well capitalized:"

(i) a common equity Tier 1 capital ratio of 6.5%;

(ii) a Tier 1 risk-based capital ratio of 8%;

(iii) a total risk-based capital ratio of 10%; and

(iv) a Tier 1 leverage ratio of 5%.

The final rules set forth certain changes for the calculation of risk-weighted assets, which were required to be utilized as of January 1, 2015. The standardized approach final rule utilizes an increased number of credit-risk exposure categories and risk weights and also addressed:

(i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act;

(ii) revisions to recognition of credit-risk mitigation;

(iii) rules for risk weighting of equity exposures and past-due loans;

(iv) revised capital treatment for derivatives and repo-style transactions;

(v) the option to use a formula-based approach referred to as the simplified supervisory formula approach to determine the risk weight of various securitization tranches in addition to the previous "gross-up" method (replacing the credit ratings approach for certain securitization); and

(vi) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the "advanced approach rules" that apply to banks with greater than $250 billion in consolidated assets.

In addition, in December 2018, the U.S. federal banking agencies finalized rules that would permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new CECL accounting rule on retained earnings over a period of three years, with 25% of the day-one impact recognized on the adoption date (January 1, 2020 for Customers) and an additional 25% recognized annually on January 1 for the next three years.

In first quarter 2020, as part of its response to the impact of COVID-19, the U.S. federal banking regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule allows banking organizations to delay for two years 100% of the day-one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. Customers has elected to adopt the interim final rule, which is reflected in the regulatory capital data presented below.

In April 2020, the U.S. federal banking regulatory agencies issued an interim final rule that permits banks to exclude the impact of participating in the SBA PPP program in their regulatory capital ratios. Specifically, PPP loans are zero percent risk weighted and a bank can exclude all PPP loans pledged as collateral to the PPPLF from its average total consolidated assets for purposes of calculating the Tier 1 capital to average assets ratio (i.e. leverage ratio). Customers applied this regulatory guidance in the calculation of its regulatory capital ratios.

As of December 31, 2020 and 2019, Customers Bank and the Bancorp met all capital adequacy requirements to which they were subject. For additional information on Customers' regulatory capital ratios, refer to "NOTE 18 – REGULATORY CAPITAL" to the consolidated financial statements.

Dodd-Frank Act. The Dodd-Frank Act was enacted by Congress on July 15, 2010, and was signed into law on July 21, 2010. Among many other provisions, the legislation:

- established the Financial Stability Oversight Council, a federal agency acting as the financial system's systemic risk regulator with the authority to review the activities of significant bank holding companies and non-bank financial firms, to make recommendations and impose standards regarding capital, leverage, conflicts and other requirements for financial firms and to impose regulatory standards on certain financial firms deemed to pose a systemic threat to the financial health of the U.S. economy;

- created a new CFPB within the U.S. Federal Reserve, which has substantive rule-making authority over a wide variety of consumer financial services and products, including the power to regulate unfair, deceptive or abusive acts or practices;
- permitted state attorney generals and other state enforcement authorities broader power to enforce consumer protection laws against banks;
- required that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. On June 29, 2011, for banks with assets of $10 billion or greater, such as the Bank, the Federal Reserve Board set the interchange rate cap at $0.21 per transaction and 5 basis points multiplied by the value of the transaction;
- gave the FDIC substantial new authority and flexibility in assessing deposit insurance premiums, which may result in increased deposit insurance premiums for Customers in the future;
- increased the deposit insurance coverage limit for insurable deposits to $250,000 generally, and removes the limit entirely for transaction accounts;
- permitted banks to pay interest on business demand deposit accounts; and
- prohibited banks subject to enforcement action such as a MOU from changing their charter without the approval of both their existing charter regulator and their proposed new charter regulator.

The EGRRCPA was signed into law on May 24, 2018 and directs the Federal Reserve Board to monitor emerging risks to financial stability and enact supervision and prudential standards applicable to bank holding companies with total assets of $250 billion or more and non-bank covered companies designated as systematically important by the Financial Stability Oversight Council. In general, the EGRRCPA increases the statutory asset threshold, defined in the Dodd-Frank Act, above which the Federal Reserve is required to apply these enhanced prudential standards from $50 billion to $250 billion and immediately raised the asset threshold for stress testing from $10 billion to $100 billion for bank holding companies. Bank holding companies with $250 billion or more in total consolidated assets remain fully subject to the Dodd-Frank Act's enhanced prudential standards requirements. As a result, Customers is no longer subject to stress testing regulations or any requirement to publish the results of our stress testing. Customers will continue to perform certain stress tests internally and incorporate the economic models and information developed through our stress testing program into our risk management and business planning activities.

In July 2018, the Federal Reserve stated that it would no longer require bank holding companies with less than $100 billion in total consolidated assets to comply with the modified version of the liquidity coverage ratio. In addition, in October 2018, the federal bank regulators proposed to revise their liquidity requirements so that banking organizations that are not global systemically important banks and have less than $250 billion in total consolidated assets and less than $75 billion in each of off-balance-sheet exposure, nonbank assets, cross-jurisdictional activity and short-term wholesale funding would not be subject to any liquid coverage ratio or net stable funding ratio requirements.

In February 2014, the Federal Reserve adopted rules to implement certain of these enhanced prudential standards. Beginning in 2015, the rules require publicly traded bank holding companies with $10 billion or more in total consolidated assets to establish risk committees and require bank holding companies with $50 billion or more in total consolidated assets to comply with enhanced liquidity and overall risk management standards. Customers has established a risk committee and is in compliance with this requirement. In October 2018, the Federal Reserve and the other federal bank regulators proposed rules that would tailor the application of the enhanced prudential standards to bank holding companies and depository institutions pursuant to the EGRRCPA amendments, including by raising the asset threshold for application of many of these standards. For example, all publicly traded bank holding companies with $50 billion or more in total consolidated assets would be required to maintain a risk committee.

Many of these provisions are subject to further rule making and to the discretion of regulatory bodies, including Customers Bank’s primary federal banking regulator, the Federal Reserve. It is not possible to predict at this time the extent to which regulations authorized or mandated by the Dodd-Frank Act and EGRRCPA will impose requirements or restrictions on Customers Bank in addition to or different from the provisions summarized above.

Regulatory Reform and Legislation. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of Customers in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. Customers cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on its financial condition or results of operations. A change in statutes, regulations or regulatory policies applicable to Customers or our subsidiaries could have a material effect on our business, financial condition and results of operations.

Deposit Insurance Assessments. Customers Bank's deposits are insured by the FDIC up to the limits set forth under applicable law and are subject to deposit insurance premium assessments. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005. Under this system, the amount of FDIC assessments paid by an individual insured depository institution, like Customers Bank, is based on the level of perceived risk incurred in its activities. The FDIC places a depository institution in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rates based on certain specified financial ratios.

In February 2011, the FDIC adopted a final rule modifying the risk-based assessment system and setting initial base assessment rates beginning in April 2011, ranging from 2.5 to 45 basis points of Tier I capital.

On June 22, 2020, the FDIC issued a final rule that mitigates the deposit insurance assessment effects of participating in the PPP, the PPPLF and MMLF. Pursuant to the final rule, the FDIC will generally remove the effect of PPP lending in calculating an institution's deposit insurance assessment. The final rule also provides an offset to an institution's total assessment amount for the increase in its assessment base attributable to participation in the PPP and MMLF. Further, on October 20, 2020, the FDIC issued a final rule to allow institutions that experienced temporary growth, from participation in the PPPLF and/or MMLF, to determine whether they are subject to the requirements of Part 363 of the FDIC's regulations (which imposes annual audit and reporting requirements on insured depository institutions with $500 million or more in consolidated total assets) for fiscal years ending in 2021 based on the consolidated assets of December 31, 2019.

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977, the record of a bank holding company and its subsidiary banks must be considered by the appropriate Federal banking agencies, including the Federal Reserve Board, in reviewing and approving or disapproving a variety of regulatory applications including approval of a branch or other deposit facility, office relocation, a merger and certain acquisitions. Federal banking agencies have demonstrated an increased readiness to deny applications based on unsatisfactory CRA performance. The Federal Reserve Board is required to assess Customers' record to determine if it is meeting the credit needs of the community, including the low-and-moderate-income neighborhoods that it serves. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 amended the CRA to require, among other things, that the Federal Reserve Board make publicly available an evaluation of the bank's record of meeting the credit needs of its entire community, including low-and-moderate-income neighborhoods. This evaluation includes a descriptive rating (outstanding, satisfactory, needs to improve or substantial noncompliance) and a statement describing the basis for the rating.

Incentive Compensation. In June 2010, the Federal Reserve Board, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Customers, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness, and the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, Section 956 of the Dodd-Frank Act required certain regulators (including the FDIC, SEC and Federal Reserve Board) to adopt requirements or guidelines prohibiting excessive compensation. In April and May 2016, the Federal Reserve, jointly with five other federal regulators, published a proposed rule in response to Section 956 of the Dodd-Frank Act, which requires implementation of regulations or guidelines to: (i) prohibit incentive-based payment arrangements that encourage inappropriate risks by certain financial institutions by providing excessive compensation or that could lead to material financial loss and (ii) require those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate federal regulator.

The proposed rule identifies three categories of institutions that would be covered by these regulations based on average total consolidated assets, applying less prescriptive incentive-based compensation program requirements to the smallest covered institutions (Level 3) and progressively more rigorous requirements to the larger covered institutions (Level 1). Under the proposed rule, Customers would fall into the smallest category (Level 3), which applies to financial institutions with average total consolidated assets greater than $1 billion and less than $50 billion. The proposed rules would establish general qualitative requirements applicable to all covered entities, which would include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements and (v) mandating appropriate record keeping. Under the proposed rule, larger financial institutions with total consolidated assets of at least $50 billion would also be subject to additional requirements applicable to such institutions' "senior executive officers" and "significant risk-takers." These additional requirements would not be applicable to Customers because it currently has less than $50 billion in total consolidated assets. Comments on the proposed rule were due by July 22, 2016. As of the date of this document, the final rule has not yet been published by these regulators.

Consumer Financial Protection Laws and Enforcement. The CFPB and the federal banking agencies continue to focus attention on consumer protection laws and regulations. The CFPB is responsible for promoting fairness and transparency for mortgages, credit cards, deposit accounts and installment financial products and services and for interpreting and enforcing the federal consumer financial laws that govern the provision of such products and services. Federal consumer financial laws enforced by the CFPB include, but are not limited to, the ECOA, TILA, the Truth in Savings Act, HMDA, RESPA, the Fair Debt Collection Practices Act, and the Fair Credit Reporting Act. The CFPB is also authorized to prevent any institution under its authority from engaging in an unfair, deceptive, or abusive act or practice in connection with consumer financial products and services. Customers is subject to multiple federal consumer protection statutes and regulations, including, but not limited to, those referenced above.

In particular, fair lending laws prohibit discrimination in the provision of banking services, and the enforcement of these laws has been an increasing focus for the CFPB, the HUD, and other regulators. Fair lending laws include ECOA and the Fair Housing Act, which outlaw discrimination in credit and residential real estate transactions on the basis of prohibited factors including, among others, race, color, national origin, gender, and religion. A lender may be liable for policies that result in a disparate treatment of, or have a disparate impact on, a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the DOJ for investigation. Failure to comply with these and similar statutes and regulations can result in Customers Bancorp becoming subject to formal or informal enforcement actions, the imposition of civil money penalties and consumer litigation.

The CFPB has exclusive examination and primary enforcement authority with respect to compliance with federal consumer financial protection laws and regulations by institutions under its supervision and is authorized, individually or jointly with the federal bank regulatory agencies, to conduct investigations to determine whether any person is, or has, engaged in conduct that violates such laws or regulations. The CFPB may bring an administrative enforcement proceeding or civil action in federal district court. In addition, in accordance with a MOU entered into between the CFPB and the DOJ, the two agencies have agreed to coordinate efforts related to enforcing the fair lending laws, which includes information sharing and conducting joint investigations; however, as a result of recent leadership changes at the DOJ and CFPB, as well as changes in the enforcement policies and priorities of each agency, the extent to which such coordination will continue to occur in the near term is uncertain. As an independent bureau funded by the Federal Reserve Board, the CFPB may impose requirements that are more stringent than those of the other bank regulatory agencies.

As an insured depository institution with total assets of more than $10 billion, the Bank is subject to the CFPB's supervisory and enforcement authorities. The Dodd-Frank Act also permits states to adopt stricter consumer protection laws and state attorneys general to enforce consumer protection rules issued by the CFPB. As a result, the Bank operates in a stringent consumer compliance environment and may incur additional costs related to consumer protection compliance, including but not limited to potential costs associated with CFPB examinations, regulatory and enforcement actions and consumer-oriented litigation. The CFPB, other financial regulatory agencies, including the Federal Reserve, as well as the DOJ, have, over the past several years, pursued a number of enforcement actions against depository institutions with respect to compliance with fair lending laws.

UDAP and UDAAP. Banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the FTC Act, which is the primary federal law that prohibits unfair or deceptive acts or practices, referred to as "UDAP," and unfair methods of competition in or affecting commerce. "Unjustified consumer injury" is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with UDAP laws and regulations. However, UDAP laws and regulations have been expanded under the Dodd-Frank Act to apply to “unfair, deceptive or abusive acts or practices,” referred to as "UDAAP," which have been delegated to the CFPB for supervision. The CFPB has published its first Supervision and Examination Manual that addresses compliance with and the examination of UDAAP.

Privacy Protection and Cybersecurity. The Bank is subject to regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "nonpublic personal information," to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require the Bank to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not covered by an exception, the Bank is required to provide its customers with the ability to "opt-out" of having the Bank share their nonpublic personal information with unaffiliated third parties.

The Bank is subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of the GLBA. The guidelines describe the federal bank regulatory agencies’ expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial services. In October 2016, the federal banking agencies issued an advance notice of proposed rulemaking on enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected banking organizations and to services provided by third parties to these firms. These enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of $50 billion or more. The federal banking agencies have not yet taken further action on these proposed standards.

Bank Holding Company Regulation

As a bank holding company, Customers Bancorp is also subject to additional regulation.

The BHC Act requires the Bancorp to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than five percent (5%) of the voting shares or substantially all of the assets of any bank. In addition, bank holding companies are required to act as a source of financial strength to each of their banking subsidiaries pursuant to which such holding company may be required to commit financial resources to support such subsidiaries in circumstances when, absent such requirements, they might not do so.

A bank holding company is prohibited from engaging in or acquiring direct or indirect control of more than five percent (5%) of the voting shares of any company engaged in non-banking activities unless the Federal Reserve Board, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the Federal Reserve Board considers whether the performance of these activities by a bank holding company would offer benefits to the public that outweigh the possible adverse effects.

Control Acquisitions. The CBCA prohibits a person or group of persons from acquiring “control” of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as Customers Bancorp, would, under the circumstances set forth in the presumption, constitute acquisition of control of Customers Bancorp.

In addition, the CBCA prohibits any entity from acquiring 25% (the BHC Act has a lower limit for acquirers that are existing bank holding companies) or more of a bank holding company’s or bank’s voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the Federal Reserve. On January 31, 2020, the Federal Reserve Board approved the issuance of a final rule (which became effective April 1, 2020) that clarifies and codifies the Federal Reserve’s standards for determining whether one company has control over another. The final rule establishes four categories of tiered presumptions of noncontrol that are based on the percentage of voting shares held by the investor (less than 5%, 5-9.9%, 10-14.9% and 15-24.9%) and the presence of other indicia of control. As the percentage of ownership increases, fewer indicia of control are permitted without falling outside of the presumption of noncontrol. These indicia of control include nonvoting equity ownership, director representation, management interlocks, business relationship and restrictive contractual covenants. Under the final rule, investors can hold up to 24.9% of the voting securities and up to 33% of the total equity of a company without necessarily having a controlling influence.

Applications under the BHC Act and the CBCA are subject to review, based upon the record of compliance of the applicant with the CRA.

The Bancorp is required to file an annual report with the Federal Reserve Board and any additional information that the Federal Reserve Board may require pursuant to the BHC Act. Further, under Section 106 of the 1970 amendments to the BHC Act and the Federal Reserve Board's regulations, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or provision of credit or provision of any property or services. The so-called "anti-tie-in" provisions state generally that a bank may not extend credit, lease, sell property or furnish any service to a customer on the condition that the customer obtains additional credit or service from the bank, or on the condition that the customer not obtain other credit or service from a competitor.

The Federal Reserve Board permits bank holding companies to engage in non-banking activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. A number of activities are authorized by Federal Reserve Board regulation, while other activities require prior Federal Reserve Board approval. The types of permissible activities are subject to change by the Federal Reserve Board.

PENNSYLVANIA BANKING LAWS

Pennsylvania banks that are Federal Reserve members may establish new branch offices only after approval by the Pennsylvania Department of Banking and Securities and the Federal Reserve Board. Approval by these regulators can be subject to a variety of factors, including the convenience and needs of the community, whether the institution is sufficiently capitalized and well managed, issues of safety and soundness, the institution's record of meeting the credit needs of its community, whether there are significant supervisory concerns with respect to the institution or affiliated organizations, and whether any financial or other business arrangement, direct or indirect, involving bank insiders involves terms and conditions more favorable to the insiders than would be available in a comparable transaction with unrelated parties.

Under the Pennsylvania Banking Code, the Bank is permitted to branch throughout Pennsylvania. Pennsylvania law also provides Pennsylvania state-chartered banks elective parity with the power of national banks, federal thrifts, and state-chartered institutions in other states as authorized by the FDIC, subject to a required notice to the Pennsylvania Department of Banking and Securities. The Pennsylvania Banking Code also imposes restrictions on payment of dividends, as well as minimum capital requirements.

In October 2012, Pennsylvania enacted three laws known as the "Banking Law Modernization Package," all of which became effective on December 24, 2012. The intended goal of the law, which applies to the Bank, is to modernize Pennsylvania's banking laws and to reduce regulatory burden at the state level where possible, given the increased regulatory demands at the federal level as described below.

The law also permits banks to disclose formal enforcement actions initiated by the Department, clarifies that the Department has examination and enforcement authority over subsidiaries as well as affiliates of regulated banks and bolsters the Department's enforcement authority over its regulated institutions by clarifying its ability to remove directors, officers and employees from institutions for violations of laws or orders or for any unsafe or unsound practice or breach of fiduciary duty. Changes to existing law also allow the Department to assess civil money penalties of up to $25,000 per violation.

The law also sets a new standard of care for bank officers and directors, applying the same standard that exists for non-banking corporations in Pennsylvania. The standard is one of performing duties in good faith, in a manner reasonably believed to be in the best interests of the institutions and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. Directors may rely in good faith on information, opinions and reports provided by officers, employees, attorneys, accountants or committees of the board, and an officer may not be held liable simply because he or she served as an officer of the institution.

Interstate Branching. Federal law allows the Federal Reserve and FDIC, and the Pennsylvania Banking Code allows the Pennsylvania Department of Banking and Securities, to approve an application by a state banking institution to acquire interstate branches. For more information on federal law, see the discussion under "Federal Banking Laws – Interstate Branching" above.

Pennsylvania banking laws authorize banks in Pennsylvania to acquire existing branches or branch de novo in other states and also permit out-of-state banks to acquire existing branches or branch de novo in Pennsylvania.

In April 2008, Banking Regulators in the States of New Jersey, New York and Pennsylvania entered into the Interstate MOU to clarify their respective roles, as home and host state regulators, regarding interstate branching activity on a regional basis pursuant to the Riegle-Neal Amendments Act of 1997. The Interstate MOU establishes the regulatory responsibilities of the respective state banking regulators regarding bank regulatory examinations and is intended to reduce the regulatory burden on state-chartered banks branching within the region by eliminating duplicative host state compliance exams.

Under the Interstate MOU, the activities of branches Customers established in New Jersey or New York would be governed by Pennsylvania state law to the same extent that federal law governs the activities of the branch of an out-of-state national bank in such host states. Issues regarding whether a particular host state law is preempted are to be determined in the first instance by the Pennsylvania Department of Banking and Securities. In the event that the Pennsylvania Department of Banking and Securities and the applicable host state regulator disagree regarding whether a particular host state law is pre-empted, the Pennsylvania Department of Banking and Securities and the applicable host state regulator would use their reasonable best efforts to consider all points of view and to resolve the disagreement.

Item 1A. Risk Factors

Summary of Risk Factors

Our business is subject to a number of risks and a summary of the significant risk factors is set forth below. These risks are discussed in more detail following this summary and should be read together with this summary and considered along with other information contained in this report before investing in our securities.

- **Risks related to the Bancorp's banking operations:**
    - Risks associated with our lending activities and effective management of credit risks in our loan and lease portfolio;
    - Risks related to maintaining an appropriate level of ACL;
    - Risks associated with our investment securities portfolio including market and credit risks and the uncertainties surrounding macroeconomic conditions;
    - Risks related to planned changes in the composition of our loan portfolio including our emphasis on commercial and industrial, commercial real estate, consumer, and mortgage warehouse lending;
    - Risks associated with maintaining sufficient liquidity including our ability to gather, grow and retain our lower cost deposits;
    - Risks and uncertainties associated with the effectiveness of our business strategies, operations, and technology in managing growth and maintaining profitability;
    - Risks related to changes to estimates and assumptions made by management in preparing financial statements. These changes could adversely affect our business, operating results, reported assets and liabilities, financial condition and capital levels;
    - Risks related to changes in accounting standards and policies which can be difficult to predict and can materially impact how we record and report our financial results;
    - Risks related to our geographic concentration in the Northeast and Mid-Atlantic regions;
    - Risks related to our dependency on our executive officers and key personnel to implement our strategy and our ability to retain their services;
    - Risks related to significant competition from other financial institutions and financial services providers;
    - Risks related to the uncertainty about reference rate reform;
    - Risks associated with our dependency on our information technology and telecommunications systems and third-party servicers including exposures to systems failures, interruptions or breaches of security;
    - Risks associated with the loss of, or failure to adequately safeguard, confidential or proprietary information;

- **Risks related to the divestiture of BMT:**
  - Risks associated with BM Technologies after completion of the merger of BMT with Megalith Financial Acquisition Corp. through our various service and loan agreements with BM Technologies;
- **Risks related to the COVID-19 pandemic, climate change and macroeconomic conditions:**
  - Risks related to worsening general business and economic conditions which could materially and adversely affect us;
  - Risks associated with the COVID-19 pandemic including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic;
  - Risks related to the SBA's PPP program and PPP loans remaining on our balance sheet;
  - Risks related to climate change and related legislative and regulatory initiatives on our business;
- **Risks related to the regulation of our industry:**
  - Risks associated with the highly regulated environment in which we operate, including the effects of heightened regulatory and supervisory requirements applicable to banks with assets in excess of $10 billion;
  - Risks related to maintaining adequate regulatory capital to support our business strategies including the long-term impact of the new regulatory capital standards and the capital rules on U.S. banks;
  - Risks related to our use of third-party vendors and our other ongoing third-party business relationships which are subject to increasing regulatory requirements and attention;
  - Risks associated to us being subject to numerous laws and governmental regulations and to regular examinations by our regulators of our business and compliance with laws and regulations. Our failure to comply with such laws and regulations or to adequately address any matters identified during these examinations could materially and adversely affect us;
  - Risks related to reviews performed by the Internal Revenue Service and state taxing authorities for the fiscal years that remain open for investigation and potential changes in U.S. federal, state or local tax laws;
- **Risks related to our securities:**
  - Risks related to our voting common stock;
  - Risks related to our fixed-to-floating-rate non-cumulative perpetual preferred stock, Series C, Series D, Series E and Series F; and
  - Risks related to our senior notes and subordinated notes.
- **General risk factors**

Risks Related to the Bancorp's Banking Operations

Our business is highly susceptible to credit risk. If our ACL is insufficient to absorb losses in our loan and lease portfolio, our earnings could decrease.

Lending money is a substantial part of our business, and each loan and lease carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- the financial condition and cash flows of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan or lease;
- the discount on the loan at the time of its acquisition;

- the duration of the loan or lease;
- the credit history of a particular borrower; and
- changes in current and future economic and industry conditions.

Our credit standards, policies and procedures are designed to reduce the risk of credit losses to a low level but may not prevent us from incurring substantial credit losses.

Additionally, we may restructure originated or acquired loans if we believe the borrowers are experiencing problems servicing the debt pursuant to current terms, and we believe the borrower is likely to fully repay their restructured obligations. We may also be subject to legal or regulatory requirements for restructured loans. With respect to restructured loans, we may grant concessions to borrowers experiencing financial difficulties in order to facilitate repayment of the loan by a reduction of the stated interest rate for the remaining life of the loan to lower than the current market rate for new loans with similar risk or an extension of the maturity date.

Management makes various assumptions and judgments about the collectibility of our loan and lease portfolio, including the creditworthiness of our borrowers and the probability of our borrowers making payments, as well as the value of real estate and other assets serving as collateral for the repayment of many of our loans and leases. As described in NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to our audited financial statements, on January 1, 2020, Customers adopted ASC 326, *Measurement of Credit Losses on Financial Instruments* ("ASC 326"), which replaced the "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the CECL model. The adoption resulted in an increase of $79.8 million to the beginning balance of our ACL. Under the CECL model, we are required to present certain financial assets carried at amortized cost, such as loans held for investment and HTM debt securities, at the net amount expected to be collected. The measurement of expected credit losses is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the incurred loss model required under current GAAP, which delayed recognition until it was probable a loss had been incurred. The CECL model may create more volatility in the level of our reserves. At December 31, 2020, Customers' ACL totaled $144.2 million, which represented 1.90% of total loans and leases held for investment (excluding loans receivable, mortgage warehouse at fair value and loan receivable, PPP), a non-GAAP measure. Management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Please refer to the reconciliation schedules in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, LOANS AND LEASES, *Credit Risk*."

In determining the amount of the ACL, significant factors considered include loss experience in particular segments of the portfolio, trends and absolute levels of classified and criticized loans and leases, trends and absolute levels in delinquent loans and leases, trends in risk ratings, trends in industry and Customers' charge-offs by particular segments and changes in current and future economic and business conditions affecting our lending areas and the national economy, including the impact of the COVID-19 pandemic. If our assumptions are incorrect, our ACL may not be sufficient to cover losses inherent in our loan and lease portfolio, resulting in additions to the ACL.

Management reviews and re-estimates the ACL quarterly. Additions to our ACL as a result of management's reviews and re-estimates could materially decrease net income. Our regulators, as an integral part of their examination process, periodically review our ACL and may require us to increase our ACL by recognizing additional provisions for loan and lease losses charged to expense, or to decrease our ACL by recognizing charge-offs, net of recoveries. Any such additional provisions for credit losses for loans and leases or net charge-offs, as required by our regulators, could have a material adverse effect on our financial condition and results of operations and possible risk-based capital.

In first quarter 2020, as part of its response to the impact of COVID-19, the U.S. federal banking regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule allows banking organizations to delay for two years 100% of the day-one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. We elected to adopt the interim final rule.

Planned changes in the composition of our loan portfolio may expose us to increased lending risks.

We intend to continue emphasizing the origination of commercial loans, including specialty loans, loans to mortgage banking businesses and loans to consumers, while deemphasizing our multi-family loan portfolio. Our focus will be on funding commercial and industrial and consumer loan growth with the run-off of our multi-family loan portfolio. Changes in the composition of our loan portfolio could have a significant adverse effect on our overall credit profile, which could result in a higher percentage of non-accrual loans, increased provision for loan losses, and an increased level of net charge-offs, all of which could have a material and adverse effect on our financial condition and results of operations. Consumer loans are particularly affected by economic conditions, including interest rates, the rate of unemployment, housing prices, the level of consumer confidence, changes in consumer spending, and the number of personal bankruptcies. A weakening in business or economic conditions, including higher unemployment levels or declines in home prices could adversely affect borrowers' ability to repay their loans, which could negatively impact our credit performance.

As of December 31, 2020, Customers had $1.6 billion in consumer loans outstanding, or 10.3% of the total loan and lease portfolio, which includes loans held for sale and loans receivable, mortgage warehouse at fair value and loans receivable, PPP, compared to $1.6 billion, or 16.2% of the total loan and lease portfolio, as of December 31, 2019.

Our emphasis on commercial, commercial real estate and mortgage warehouse lending may expose us to increased lending risks.

We intend to continue emphasizing the origination of commercial loans and specialty loans, including loans to mortgage banking businesses. Commercial loans, including commercial real estate loans, can expose a lender to risk of non-payment and loss because repayment of the loans often depends on the successful operation of a business or property and the borrower's cash flows. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four-family residential mortgage loans. In addition, we may need to increase our allowance for credit losses in the future to account for an increase in expected credit losses associated with such loans. Also, we expect that many of our commercial borrowers will have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four-family residential mortgage loan.

As a lender to mortgage banking businesses, we provide financing to mortgage bankers by purchasing, subject to resale under a master repurchase agreement, the underlying residential mortgages on a short-term basis pending the ultimate sale of the mortgages to investors. We are subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and possible default by the borrower, closing agents and the residential borrower on the underlying mortgage, any of which could result in credit losses. The risk of fraud associated with this type of lending includes, but is not limited to, settlement process risks, the risk of financing nonexistent loans or fictitious mortgage loan transactions, or the risk that collateral delivered is fraudulent or non-existent, creating a risk of loss of the full amount financed on the underlying residential mortgage loan, or in the settlement processes. In first quarter 2013, fraud was discovered in our commercial mortgage warehouse loan portfolio. Additional fraudulent transactions could have a material adverse effect on our financial condition and results of operations.

Our lending to commercial mortgage businesses is a significant part of our assets and earnings. This business is subject to seasonality of the mortgage lending business, and volumes are likely to decline if interest rates increase, generally. A decline in the rate of growth, volume or profitability of this business unit, or a loss of its leadership could adversely affect our results of operations and financial condition.

As of December 31, 2020, we had $14.2 billion in commercial loans outstanding, approximately 89.8% of our total loan and lease portfolio, which includes loans held for sale and loans receivable, mortgage warehouse at fair value and loans receivable, PPP, as compared to $8.4 billion, or 83.8% of the total loan and lease portfolio, as of December 31, 2019.

Our New York State multi-family loan portfolio could be adversely impacted by changes in legislation or regulation.

On June 14, 2019, the New York State legislature passed the Housing Stability and Tenant Protection Act of 2019, impacting about one million rent regulated apartment units. Among other things, the new legislation: (i) curtails rent increases from Material Capital Improvements and Individual Apartment Improvements; (ii) all but eliminates the ability for apartments to exit rent regulation; (iii) does away with vacancy decontrol and high-income deregulation; and (iv) repealed the 20% vacancy bonus. While it is too early to measure the full impact of the legislation, in total, it generally limits a landlord's ability to increase rents on rent regulated apartments and makes it more difficult to convert rent regulated apartments to market rate apartments. As a result, the value of the collateral located in New York State securing our multi-family loans or the future net operating income of such properties could potentially become impaired. At December 31, 2020, our total multi-family exposure in New York State was approximately $1.0 billion, of which approximately $0.7 billion, or 69%, was provided for loans to rent regulated properties in the multi-family community, primarily in New York City.

Federal Home Loan Bank of Pittsburgh may not pay dividends or repurchase capital stock in the future.

On December 23, 2008, the FHLB of Pittsburgh announced that it would voluntarily suspend the payment of dividends and the repurchase of excess capital stock until further notice. The FHLB announced at that time that it expected its ability to pay dividends and add to retained earnings to be significantly curtailed due to low short-term interest rates, an increased cost of maintaining liquidity, impairment charges and constrained access to debt markets at attractive rates. While the FHLB resumed payment of dividends and capital stock repurchases in 2012, capital stock repurchases from member banks are reviewed on a quarterly basis by the FHLB, and there is no guarantee that such dividends and capital stock repurchases will continue in the future. As of December 31, 2020, the Bank held $46.1 million of FHLB capital stock.

The fair value of our investment securities can fluctuate due to market conditions. Adverse economic performance can lead to adverse security performance and potential impairment.

As of December 31, 2020, the fair value of our investment securities portfolio was $1.2 billion. We have historically followed a conservative investment strategy, with concentrations in securities that are backed by government-sponsored enterprises. In the future, we may seek to increase yields through more aggressive strategies, which may include a greater percentage of corporate securities, structured credit products or non-agency mortgage-backed securities. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, such as a change in management's intent to hold the securities until recovery in fair value, could cause credit losses and realized and/or unrealized losses in future periods and declines in OCI, which could have a material adverse effect on us. The process for determining whether impairment of a security exists usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

During the year ended December 31, 2017, Customers recorded impairment of $12.9 million related to its equity holdings in Religare for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through September 30, 2017, because Customers no longer had the intent to hold these securities until a recovery in fair value. At December 31, 2020, Customers has not concluded on a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare impairment. The adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a $1.0 million reduction in accumulated other comprehensive income (loss) and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption are recorded directly in earnings, which resulted in an unrealized gain of $1.4 million being recognized in other non-interest income in the accompanying consolidated statements of income for the year ended December 31, 2020. At December 31, 2020, the fair value of the Religare equity securities was $3.9 million.

Changes to estimates and assumptions made by management in preparing financial statements could adversely affect our business, operating results, reported assets and liabilities, financial condition and capital levels.

Changes to estimates and assumptions made by management in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of our consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. Changes to management's assumptions or estimates could materially and adversely affect our business, operating results, reported assets and liabilities, financial condition and capital levels.

Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance could have a material adverse effect on our financial results or net worth. For example, we adopted ASC 326 on January 1, 2020 which replaced the incurred loss methodology for determining our provision for credit losses and the ACL with the CECL model. As discussed above, our adoption of CECL resulted in an increase to our ACL of $79.8 million. The impact of CECL in future periods will be significantly influenced by the composition, characteristics and quality of our loan and lease portfolio, as well as the current economic conditions and forecasts of macroeconomic variables utilized. Should these factors materially change, we may be required to increase or decrease our ACL which will impact our reported earnings thereby introducing additional volatility into our reported earnings.

The geographic concentration in the Northeast and Mid-Atlantic regions makes our business susceptible to downturns in the local economies and depressed banking markets, which could materially and adversely affect us.

Our loan and deposit activities are largely based in the Northeast and Mid-Atlantic regions. As a result, our financial performance depends upon economic conditions in these regions. These regions experienced deteriorating local economic conditions in the past economic cycle, and a downturn in the regional real estate market could harm our financial condition and results of operations because of the geographic concentration of loans within these regions, and because a large percentage of the loans are secured by real property. If there is decline in real estate values, the collateral value for our loans will decrease, and our probability of incurring losses will increase as the ability to recover on defaulted loans by selling the underlying real estate will be lessened.

Additionally, we have made a significant investment in commercial real estate loans. Often in a commercial real estate transaction, repayment of the loan is dependent on the property generating sufficient rental income to service the loan. Economic conditions may affect a tenant's ability to make rental payments on a timely basis, and may cause some tenants not to renew their leases, each of which may impact the debtor's ability to make loan payments. Further, if expenses associated with commercial properties increase dramatically, a tenant's ability to repay, and therefore the debtor's ability to make timely loan payments, could be adversely affected. All of these factors could increase the amount of NPLs, increase our provision for loan losses and reduce our net income.

We depend on our executive officers and key personnel to implement our strategy and could be harmed by the loss of their services.

We believe that the implementation of our strategy will depend in large part on the skills of our executive management team, and our ability to motivate and retain these and other key personnel. Accordingly, the loss of service of one or more of our executive officers or key personnel could reduce our ability to successfully implement our growth strategy and materially and adversely affect us. Leadership changes will occur from time to time, and if significant resignations occur, we may not be able to recruit additional qualified personnel. We believe our executive management team possesses valuable knowledge about the banking industry and that their knowledge and relationships would be very difficult to replicate. Although our CEO, CFO, and President have entered into employment agreements with us, it is possible that they may not complete the term of their employment agreement or may choose not to renew it upon expiration.

Our customers also rely on us to deliver personalized financial services. Our strategic model is dependent upon relationship managers and private bankers who act as a customer's single point of contact to us. The loss of the service of these individuals could undermine the confidence of our customers in our ability to provide such personalized services. We need to continue to attract and retain these individuals and to recruit other qualified individuals to ensure continued growth. In addition, competitors may recruit these individuals in light of the value of the individuals' relationships with their customers and communities, and we may not be able to retain such relationships absent the individuals. In any case, if we are unable to attract and retain our relationship managers and private bankers and recruit individuals with appropriate skills and knowledge to support our business, our growth strategy, business, financial condition and results of operations may be adversely affected.

Our success also depends on the experience of our branch managers and lending officers and on their relationships with the customers and communities they serve. The loss of these key personnel could negatively impact our banking operations. The loss of key senior personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on us.

Potential limitations on incentive compensation contained in proposed federal agency rulemaking may adversely affect our ability to attract and retain our highest performing team members.

In April 2011 and May 2016, the Federal Reserve, other federal banking agencies and the SEC jointly published proposed rules designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which includes a bank or bank holding company with $1 billion or more in assets, such as we. It cannot be determined at this time whether or when a final rule will be adopted, and whether compliance with such a final rule will substantially affect the manner in which we structure compensation for our executives and other team members. Depending on the nature and application of the final rules, we may not be able to successfully compete with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high-performing team members. If this were to occur, relationships that we have established with our clients may be impaired and our business, financial condition and results of operations could be adversely affected, perhaps materially.

We face significant competition from other financial institutions and financial services providers, which may materially and adversely affect us.

Commercial and consumer banking is highly competitive. Changes in market interest rates and pricing decisions by our loan competitors may adversely affect demand for our loan products and the revenue realized on the sale of loans, and ultimately reduce our net income. Our markets contain a large number of community and regional banks as well as a significant presence of the country's largest commercial banks. We compete with other state and national financial institutions, including savings and loan associations, savings banks and credit unions, for deposits and loans. In addition, we compete with financial intermediaries, such as consumer finance companies, mortgage banking companies, insurance companies, securities firms, mutual funds and several government agencies, as well as major retailers, in providing various types of loans and other financial services. Some of these competitors may have a long history of successful operations in our markets, greater ties to local businesses and more expansive banking relationships, as well as better established depositor bases. Competitors may also have greater resources and access to capital and may possess other advantages such as operating more ATMs and conducting extensive promotional and advertising campaigns or operating a more developed Internet platform. Competitors may also exhibit a greater tolerance for risk and behave more aggressively with respect to pricing in order to increase their market share.

We expect to drive organic growth by employing our Concierge Banking® and single-point-of-contact strategies, which provide specific relationship managers or private bankers for all customers. Many of our competitors provide similar services, and others may replicate our model. Our competitors may have greater resources than we do and may be able to provide similar services more quickly, efficiently and extensively. To the extent others replicate our model, we could lose what we view as a competitive advantage, and our financial condition and results of operations may be adversely affected.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions may adversely affect our ability to market our products and services. Technological advances have lowered barriers to entry and made it possible for banks to compete in our market without a retail footprint by offering competitive rates, as well as non-banks to offer products and services traditionally provided by banks. Our ability to compete successfully depends on a number of factors, including, among others:

- the ability to develop, maintain and build upon long-term customer relationships based on high quality, personal service, effective and efficient products and services, high ethical standards and safe and sound assets;
- the scope, relevance and competitive pricing of products and services offered to meet customer needs and demands;
- the ability to provide customers with maximum convenience of access to services and availability of banking representatives;
- the ability to attract and retain highly qualified team members to operate our business;
- the ability to expand our market position;
- customer access to our decision makers and customer satisfaction with our level of service; and
- the ability to operate our business effectively and efficiently.

Failure to perform in any of these areas could significantly weaken our competitive position, which could materially and adversely affect us.

Like other financial services institutions, our asset and liability structures are monetary in nature. Such structures are affected by a variety of factors, including changes in interest rates, which can impact the value of financial instruments held by us.

Like other financial services institutions, we have asset and liability structures that are essentially monetary in nature and are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal policies, inflation, currency values, market conditions, the availability and terms (including cost) of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of customers and counterparties and the level and volatility of trading markets. Such factors can impact customers and counterparties of a financial services institution and may impact the value of financial instruments held by a financial services institution.

Our earnings and cash flows largely depend upon the level of our net interest income, which is the difference between the interest income we earn on loans, investments and other interest earning assets, and the interest we pay on interest bearing liabilities, such as deposits and borrowings. Because different types of assets and liabilities may react differently and at different times to market interest-rate changes, changes in interest rates can increase or decrease our net interest income. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase in interest rates would reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, and because the magnitude of repricing of interest-earning assets is often greater than interest-bearing liabilities, falling interest rates would reduce net interest income. Furthermore, with total assets above $10 billion, our ability to earn increased net interest income will be important to recover reduced interchange income due to the loss of the small issuer exemption under the Durbin Amendment.

Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets and liabilities, loan and investment securities portfolios and our overall financial results. Changes in interest rates may also have a significant impact on any future loan origination revenues. Changes in interest rates also have a significant impact on the carrying value of a significant percentage of the assets, both loans and investment securities, on our balance sheet. We may incur debt in the future, and that debt may also be sensitive to interest rates and any increase in interest rates could materially and adversely affect us. Interest rates are highly sensitive to many factors beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Adverse changes in the Federal Reserve's interest-rate policies or other changes in monetary policies and economic conditions could materially and adversely affect us.

Uncertainty about the future of LIBOR may adversely affect our business.

LIBOR and certain other interest rate "benchmarks" are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit information to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot be guaranteed after 2021. On November 30, 2020, the LIBOR's administrator announced a consultation on specific timing for ceasing the publication of USD LIBOR, with proposed end dates immediately following the December 31, 2021 publication for the one week and two month USD LIBOR settings, and the June 30, 2023 publication for other USD LIBOR tenors. The U.S. regulators are also encouraging banks to transition away from USD LIBOR as soon as practicable and in any event by December 31, 2021. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, a group of market participants convened by the Federal Reserve, the Alternative Reference Rate Committee, has selected the SOFR as its recommended alternative to LIBOR. The Federal Reserve Bank of New York started to publish the SOFR in April 2018. The SOFR is a broad measure of the cost of overnight borrowings collateralized by Treasury securities that was selected by the Alternative Reference Rate Committee due to the depth and robustness of the U.S. Treasury repurchase market. At this time, it is impossible to predict whether the SOFR will become an accepted alternative to LIBOR.

The market transition away from LIBOR to an alternative reference rate, such as the SOFR, is complex and could have a range of adverse effects on our business, financial condition and results of operations. In particular, any such transition could:

- adversely affect the interest rates paid or received on, the revenue and expenses associated with or the value of Customers' LIBOR-based assets and liabilities, which include certain variable rate securities and loans, leases, cash flow hedges, derivatives not designated as hedging instruments, subordinated debt, and Customers' outstanding preferred stock;
- adversely affect the interest rates paid or received on, the revenue and expenses associated with or the value of other securities or financial arrangements, given LIBOR's role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect of Customers' preparation and readiness for the replacement of LIBOR with an alternative reference rate; and
- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based contracts and securities.

The transition away from LIBOR to an alternative reference rate will require the transition to or development of appropriate systems and analytics to effectively transition Customers' risk management and other processes from LIBOR-based products to those based on the applicable alternative reference rate, such as the SOFR. There can be no guarantee that these efforts will successfully mitigate the operational risks associated with the transition away from LIBOR to an alternative reference rate.

The manner and impact of the transition from LIBOR to an alternative reference rate, as well as the effect of these developments on our funding costs, loan and investment securities portfolios, asset-liability management, and business, is uncertain.

We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have a material adverse effect on us.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

We continue to evaluate and implement upgrades and changes to our information technology systems, some of which are significant. Upgrades involve replacing existing systems with successor systems, making changes to existing systems or cost-effectively acquiring new systems with new functionality. We are aware of inherent risks associated with replacing these systems, including accurately capturing data and system disruptions, and believe we are taking appropriate action to mitigate the risks through testing, training, and staging implementation, as well as ensuring appropriate commercial contracts are in place with third-party vendors supplying or supporting our information technology initiatives. However, there can be no assurances that we will successfully launch these systems as planned or that they will be implemented without disruptions to our operations. Information technology system disruptions, if not anticipated and appropriately mitigated, or failure to successfully implement new or upgraded systems, could have a material adverse effect on our results of operations. Also, we may have to make a significant investment to repair or replace these systems and could suffer loss of critical data and interruptions or delays in our operations.

In addition, we provide our customers with the ability to bank remotely, including online, over the Internet and over the telephone. The secure transmission of confidential information over the Internet and other remote channels is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could materially and adversely affect us.

Additionally, financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively and in a cost-efficient manner is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available. Certain competitors may have greater resources to invest in technology and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so could have a material adverse impact on our business and therefore on our financial condition and results of operations.

Loss of, or failure to adequately safeguard, confidential or proprietary information may adversely affect our operations, net income or reputation.

We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, team members and others. This information is necessary for the conduct of our business activities, including the ongoing maintenance of deposit, loan, investment management and other account relationships for our customers, and receiving instructions and affecting transactions for those customers and other users of our products and services. In addition to confidential information regarding our customers, team members and others, we compile, process, transmit and store proprietary, non-public information concerning our own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf.

Information security risks have increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. A failure in or breach of our operational or information security systems or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to team member error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses. As a result, cyber security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us.

If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss. Mishandling, misuse or loss of this confidential or proprietary information could occur, for example, if the confidential or proprietary information were erroneously provided to parties who were not permitted to have the information, either by fault of the systems or our team members, or the systems or employees of third parties which have collected, compiled, processed, transmitted or stored the information on our behalf, where the information is intercepted or otherwise inappropriately taken by third parties or where there is a failure or breach of the network, communications or information systems which are used to collect, compile, process, transmit or store the information.

Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, or that if mishandling, misuse or loss of the information did occur, those events would be promptly detected and addressed. Additionally, as information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

Breaches of security measures, computer viruses or malware, fraudulent activity and infrastructure failures could materially and adversely affect our reputation or harm our business including the unauthorized access to or disclosure of data relating to BMT serviced deposit account holders.

Companies that process and transmit cardholder information have been specifically and increasingly targeted by sophisticated criminal organizations in an effort to obtain the information and utilize it for fraudulent transactions. The encryption software and the other technologies we use to provide security for storage, processing and transmission of confidential customer and other information may not be effective to protect against data-security breaches. The risk of unauthorized circumvention of our security measures has been heightened by advances in computer capabilities and the increasing sophistication of hackers.

Unauthorized access to our computer systems or those of our third-party service providers, could result in the theft or publication of the information or the deletion or modification of sensitive records, and could cause interruptions in our operations. Any inability to prevent security breaches could damage our relationships with our higher education institution customers, cause a decrease in transactions by individual cardholders, expose us to liability for unauthorized purchases and subject us to network fines. These claims also could result in protracted and costly litigation. If unsuccessful in defending that litigation, we might be forced to pay damages and/or change our business practices. Further, a significant data-security breach could lead to additional regulation, which could impose new and costly compliance obligations. Any material increase in our costs resulting from litigation or additional regulatory burdens being imposed upon us or litigation could have a material adverse effect on our operating revenues and profitability.

In addition, our student account holders disclose certain “personally identifiable” information, including student contact information, identification numbers and the amount of credit balances, which they expect we will maintain in confidence. It is possible that hackers, customers or team members acting unlawfully or contrary to our policies or other individuals, could improperly access our or our vendors’ systems and obtain or disclose data about our customers. Further, because customer data may also be collected, stored or processed by third-party vendors, it is possible that these vendors could intentionally, negligently or otherwise disclose data about our clients or customers.

We rely to a large extent upon sophisticated information technology systems, databases and infrastructure, and take reasonable steps to protect them. However, due to their size, complexity, content and integration with or reliance on third-party systems, they are vulnerable to breakdown, malicious intrusion, natural disaster and random attack, all of which pose a risk of exposure of sensitive data to unauthorized persons or to the public.

A cybersecurity breach of our information systems could lead to fraudulent activity such as identity theft, losses on the part of our banking customers, additional security costs, negative publicity and damage to our reputation and brand. In addition, our customers could be subject to scams that may result in the release of sufficient information concerning themselves or their accounts to allow others unauthorized access to their accounts or our systems (e.g., “phishing” and “smishing”). Claims for compensatory or other damages may be brought against us as a result of a breach of our systems or fraudulent activity. If we are unsuccessful in defending against any resulting claims against us, we may be forced to pay damages, which could materially and adversely affect our financial condition and results of operations.

Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

Further, computer viruses or malware could infiltrate our systems, thus disrupting our delivery of services and making our applications unavailable. Although we utilize several preventative and detective security controls in our network, they may be ineffective in preventing computer viruses or malware that could damage our relationships with our merchant customers, cause a decrease in transactions by individual cardholders, or cause us to be in non-compliance with applicable network rules and regulations.

In addition, a significant incident of fraud or an increase in fraud levels generally involving our products could result in reputational damage to us, which could reduce the use of our products and services. Such incidents could also lead to a large financial loss as a result of the protection for unauthorized purchases we provide to BankMobile customers given that we may be liable for any uncollectible account holder overdrafts and any other losses due to fraud or theft. Such incidents of fraud could also lead to regulatory intervention, which could increase our compliance costs. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply could have a material adverse effect on our business. Additionally, increased regulatory requirements on our services may increase our costs, which could materially and adversely affect our business, financial condition and results of operations. Accordingly, account data breaches and related fraudulent activity could have a material adverse effect on our future growth prospects, business, financial condition and results of operations.

A disruption to our systems or infrastructure could damage our reputation, expose us to legal liability, cause us to lose customers and revenue, result in the unintentional disclosure of confidential information or require us to expend significant efforts and resources or incur significant expense to eliminate these problems and address related data and security concerns. The harm to our business could be even greater if such an event occurs during a period of disproportionately heavy demand for our products or services or traffic on our systems or networks.

Prior to our acquisition of the Disbursement business, the Federal Reserve Board and FDIC took regulatory enforcement action against Higher One, which subjected us to regulatory inquiry and potential regulatory enforcement action, which may result in liabilities adversely affecting our business, financial conditions and/or results of operations or in reputational harm even after BMT's divestiture.

Since August 2013 until the acquisition of the Disbursement business, we provided deposit accounts and services to college students through Higher One, which had relationships with colleges and universities in the United States, using Higher One's technological services. Because Higher One was not a bank, it had to partner with one or more banks to provide the deposit accounts and services to students. Higher One and one of Higher One's former bank partners (the "predecessor bank"), announced in May 2014 that the Federal Reserve Board notified them that certain disclosures and operating processes of these entities may have violated certain laws and regulations and may result in penalties and restitution. In May 2014, the Federal Reserve also informed us, as one of Higher One's bank partners, that it was recommending a regulatory enforcement action be initiated against us based on the same allegations.

In July 2014, the predecessor bank referenced above, which no longer is a partner with Higher One, entered into a consent order to cease and desist with the Federal Reserve Board pursuant to which it agreed to pay a total of $3.5 million in civil money penalties and an additional amount that it may be required to pay in restitution to students in the event Higher One is unable to pay the restitution obligations, if any, imposed on Higher One ("back-up restitution"). We believe that the circumstances of its relationship with Higher One and the student customers are different than the relationship between us and Higher One and the student customers.

In December 2015, Higher One entered into consent orders with both the Federal Reserve Board and the FDIC. Under the consent order with the Federal Reserve Board, Higher One agreed to pay $2.2 million in civil money penalties and $24 million in restitution to students. Under the consent order with the FDIC, Higher One agreed to pay an additional $2.2 million in civil money penalties and $31 million in restitution to students. In addition, a third partner bank, which is regulated by the FDIC, also entered into a consent order to cease and desist with the FDIC pursuant to which it agreed to pay $1.8 million in civil money penalties and an additional amount in restitution to students in the event Higher One is unable to meet its restitution obligation.

We believe that we identified key critical alleged compliance deficiencies within 30 days of first accepting deposits through our relationship with Higher One and caused such deficiencies to be remediated within approximately 120 days. In addition, we understand that the total amount of fees that Higher One collected from students who opened accounts with us during the relevant time period is substantially less than the total fees that Higher One collected from students who opened deposit accounts at the other partner banks during the relevant time period. In addition, as Higher One paid the restitution and deposited such monies to pay the required restitution, we did not expect that backup restitution would be required.

Nonetheless, as previously disclosed, we had been in discussions with the Federal Reserve Board regarding these matters from 2013 and in an effort to move forward, on December 6, 2016, we agreed to the issuance by the Federal Reserve Board of a combined Order to Cease and Desist and Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Order and agreed to a penalty of $960 thousand. We had previously set aside a reserve for the civil money penalty and made payment in 2016.

We remain subject to the jurisdiction and examination of the Federal Reserve Board, and further action could be taken to the extent we do not comply with the terms of the Order or if the Federal Reserve Board were to identify additional violations of applicable laws and regulations. Any further action could have a material adverse effect on our business, financial conditions and/or results of operations or our reputation.

We intend to engage in acquisitions of other businesses from time to time. These acquisitions may not produce revenue or earnings enhancements or cost savings at levels, or within time frames, originally anticipated and may result in unforeseen integration difficulties.

Although we currently do not have any agreements or understandings with respect to business acquisitions, we regularly evaluate opportunities to strengthen our current market position by acquiring and investing in banks and in other complementary businesses, or opening new branches, and when appropriate opportunities arise, subject to regulatory approval, we plan to engage in acquisitions of other businesses and in opening new branches. Such transactions could, individually or in the aggregate, have a material effect on our operating results and financial condition, including short and long-term liquidity. Our acquisition activities could be material to our business. For example, we could issue additional shares of Voting Common Stock in a purchase transaction, which could dilute current shareholders' value or ownership interest. These activities could require us to use a substantial amount of cash or other liquid assets and/or incur debt. In addition, if goodwill recorded in connection with acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Our acquisition activities could involve a number of additional risks, including the risks of:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating the terms of potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- being potentially exposed to unknown or contingent liabilities of banks and businesses we acquire;
- being required to expend time and expense to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- creating an adverse short-term effect on our results of operations;
- losing key team members and customers as a result of an acquisition that is poorly received; and
- incurring significant problems relating to the conversion of the financial and customer data of the entity being acquired into our financial and customer product systems.

Additionally, in evaluating potential acquisition opportunities, we may seek to acquire failed banks through FDIC-assisted acquisitions. While the FDIC may, in such acquisitions, provide assistance to mitigate certain risks, such as sharing in exposure to loan losses and providing indemnification against certain liabilities, of the failed institution, we may not be able to accurately estimate our potential exposure to loan losses and other potential liabilities, or the difficulty of integration, in acquiring such institutions.

Depending on the condition of any institutions or assets that are acquired, any acquisition may, at least in the near term, materially adversely affect our capital and earnings and, if not successfully integrated following the acquisition, may continue to have such effects. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions. Our inability to overcome these risks could have an adverse effect on levels of reported net income, return on equity and return on assets and the ability to achieve our business strategy and maintain market value.

Our acquisitions generally will require regulatory approvals, and failure to obtain them would restrict our growth.

Although we currently do not have any agreements or understandings with respect to business acquisitions, we may in the future seek to complement and expand our business by pursuing strategic acquisitions of community banking franchises and other businesses. Generally, any acquisition of target financial institutions, banking centers or other banking assets by us may require approval by, and cooperation from, a number of governmental regulatory agencies, possibly including the Federal Reserve, the OCC and the FDIC, as well as state banking regulators. In acting on applications, federal banking regulators consider, among other factors:

- the effect of the acquisition on competition;
- the financial condition, liquidity, results of operations, capital levels and future prospects of the applicant and the bank(s) involved;
- the quantity and complexity of previously consummated acquisitions;
- the managerial resources of the applicant and the bank(s) involved;
- the convenience and needs of the community, including the record of performance under CRA;
- the effectiveness of the applicant in combating money laundering activities; and
- the extent to which the acquisition would result in greater or more concentrated risks to the stability of the United States banking or financial system.

Such regulators could deny our application based on the above criteria or other considerations, which could restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell banking centers as a condition to receiving regulatory approvals, and such a condition may not be acceptable to us or may reduce the benefit of any acquisition.

To the extent that we are unable to increase loans through organic core loan growth, we may be unable to successfully implement our growth strategy, which could materially and adversely affect us.

In addition to growing our business through strategic acquisitions, we also intend to grow our business through organic core loan growth. While loan growth has been strong, and our loan balances have increased over the last several fiscal years, much of the loan growth came from multi-family and commercial real estate lending. If we are unsuccessful in diversifying our loan originations, or if we do not grow the existing business lines, our results of operations and financial condition could be negatively impacted.

We may not be able to effectively manage our growth.

Our future operating results and financial condition depend to a large extent on our ability to successfully manage our growth. Our growth has placed, and it may continue to place, significant demands on our operations and management. Whether through additional acquisitions or organic growth, our current plan to expand our business is dependent upon our ability to:

- continue to implement and improve our operational, credit underwriting and administration, financial, accounting, enterprise risk management and other internal and disclosure controls and procedures and our reporting systems and processes in order to manage a growing number of client relationships;
- comply with changes in, and an increasing number of, laws, rules and regulations, including those of any national securities exchange on which any of our securities become listed;
- scale our technology and other systems' platforms;
- maintain and attract appropriate staffing;
- operate profitably or raise capital; and
- support our asset growth with adequate deposits, funding and liquidity while expanding our net interest margin and meeting our customers' and regulators' liquidity requirements.

We may not successfully implement improvements to, or integrate, our management information and control systems, credit underwriting and administration, internal and disclosure controls, and procedures and processes in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, our controls and procedures must be able to accommodate an increase in loan volume in various markets and the infrastructure that comes with new banking centers and banks. Our growth strategy may divert management from our existing business and may require us to incur additional expenditures to expand our administrative and operational infrastructure and, if we are unable to effectively manage and grow our banking franchise, including to the satisfaction of our regulators, we could be materially and adversely affected. In addition, if we are unable to manage our current and future expansion in our operations, we may experience compliance, operational and regulatory problems and delays, have to slow our pace of growth or even stop our market and product expansion, or have to incur additional expenditures beyond current projections to support such growth, any one of which could materially and adversely affect us. If we experience difficulties with the development of new business activities or the integration process of acquired businesses, the anticipated benefits of any particular acquisition may not be realized fully, or at all, or may take longer to realize than expected. Additionally, we may be unable to recognize synergies, operating efficiencies, cost projections and/or expected benefits within expected time frames, or at all. We also may not be able to preserve the goodwill of an acquired financial institution. Our growth could lead to increases in our legal, audit, administrative and financial compliance costs, which could materially and adversely affect us.

If our techniques for managing risk are ineffective, we may be exposed to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to material risks, such as credit, interest rate, operational, compliance and reputational risks. Our risk management methods may prove to be ineffective due to their design, implementation or the degree to which we adhere to them, or as a result of the lack of adequate, accurate or timely information or otherwise. If our risk management efforts are ineffective, we could suffer losses that could have a material adverse effect on our business, financial condition or results of operations. In addition, we could be subject to litigation, particularly from our customers, and sanctions or fines from regulators. Our techniques for managing the risks we face may not fully mitigate the risk exposure in all economic or market environments, including exposure to risks that we might fail to identify or anticipate.

We are dependent upon maintaining an effective system of internal controls to provide reasonable assurance that transactions and activities are conducted in accordance with established policies and procedures and are captured and reported in the financial statements. Failure to comply with the system of internal controls may result in events or losses which could adversely affect our operations, net income, financial condition, reputation and compliance with laws and regulations.

Our system of internal controls, including internal controls over financial reporting, is an important element of our risk-management framework. Management regularly reviews and seeks to improve our internal controls, including annual review of key policies and procedures and annual review and testing of key internal controls over financial reporting. Any system of internal controls, however well designed and operated, is based in part on certain assumptions and expectations of employee conduct and can only provide reasonable, not absolute, assurance that the objectives of the internal control structure are met. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have a material adverse effect on our operations, net income, financial condition, reputation, compliance with laws and regulations, or may result in untimely or inaccurate financial reporting.

As previously disclosed, in November 2018, Customers determined that its previously issued consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015, the related report of BDO included in the 2017 Form 10-K filed on February 23, 2018, and interim consolidated financial statements as of and for the three months ended March 31, 2018 and 2017 and the three and six months ended June 30, 2018 and 2017 (collectively, the "Affected Periods"), should no longer be relied upon because of misclassifications of cash flow activities associated with Customers' commercial mortgage warehouse lending activities between operating and investing activities on its consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale rather than held for investment on its consolidated balance sheets. These misclassifications had no effect on total cash balances, total loans, the ACL, total assets, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted EPS, return on average assets, return on average equity, the efficiency ratio, asset quality ratios or any other key performance metric, including non-GAAP performance metrics, that Customers routinely discusses with analysts and investors. Customers filed an amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2017 and amended Quarterly Reports on Form 10-Q/A for the quarterly periods ended March 31, 2018 and June 30, 2018 on November 30, 2018 to present the restated financial statements and related disclosures.

In connection with the restatement, management determined that a material weakness existed in internal control over financial reporting solely with respect to the misclassification of cash flows associated with Customers' commercial mortgage warehouse lending activities between operating and investing activities on its consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale rather than held for investment.

Customers conducted a comprehensive analysis of the classifications of cash flows within its consolidated statements of cash flows and established new accounting policies and disclosure control procedures for the classification and reporting of its mortgage warehouse lending transactions on the consolidated balance sheet and statements of cash flows. These efforts have remediated the identified material weakness in internal control over financial reporting as of December 31, 2018.

As management continues to evaluate and work to enhance internal control over financial reporting, it may determine that additional measures are required to address control deficiencies or strengthen internal control over financial reporting. If Customers' remediation efforts do not operate effectively or if it is unsuccessful in implementing or following its remediation efforts, this may result in untimely or inaccurate reporting of Customers' financial results.

We may not be able to meet the cash flow requirements of our loan funding obligations, deposit withdrawals, or other business needs and fund our asset growth unless we maintain sufficient liquidity.

We must maintain sufficient liquidity to fund our balance sheet growth in order to successfully grow our revenues, make loans, and repay deposit and other liabilities as these mature or are drawn. This liquidity can be gathered in both wholesale and non-wholesale funding markets. Our asset growth over the past few years has been funded with various forms of deposits and wholesale funding, including brokered and wholesale time deposits, FHLB advances and Federal funds line borrowings. Total wholesale deposits including brokered and municipal deposits were 18.3% of total deposits at December 31, 2020. Our gross loan to deposit ratio was 140.0% at December 31, 2020, and our loan to deposit ratio excluding the commercial mortgage warehouse and PPP loan portfolio was 67.3% at December 31, 2020**.** Wholesale funding can cost more than deposits generated from our traditional branch system and customer relationships and is subject to certain practical limits such as our liquidity policy limits, our available collateral for FHLB borrowings capacity and Federal funds line limits with our lenders. Additionally, regulators consider wholesale funding beyond certain points to be imprudent and might suggest or require that future asset growth be reduced or halted. In the absence of appropriate levels and mix of funding, we might need to reduce interest-earning asset growth through the reduction of current production, sales of loans and/or the sale of participation interests in future and current loans. This might reduce our future growth and net income.

The amount of funds loaned to us is generally dependent on the value of the eligible collateral pledged and our financial condition. These lenders could reduce the percentages loaned against various collateral categories, eliminate certain types of collateral and otherwise modify or even terminate their loan programs, if further disruptions in the capital markets occur. Any change to or termination of our borrowings from the FHLB or correspondent banks could have an adverse effect on our profitability and financial condition, including liquidity.

We may not be able to develop and retain a strong core deposit base and other low-cost, stable funding sources.

We depend on checking, savings and money market deposit account balances and other forms of customer deposits as a primary source of funding for our lending activities. We expect that our future loan growth will largely depend on our ability to retain and grow a strong, low-cost deposit base. Because 5.8% of our deposit base as of December 31, 2020 was time deposits, it may prove harder to maintain and grow our deposit base than would otherwise be the case, especially since many of these deposits currently pay interest at above-market rates. As of December 31, 2020, $0.5 billion, or 79.7%, of our total time deposits, are scheduled to mature through December 31, 2021. We are working to transition certain of our customers to lower- cost traditional bank deposits as higher-cost funding, such as time deposits, mature. If interest rates increase, whether due to changes in inflation, monetary policy, competition or other factors, we would expect to pay higher interest rates on deposits, which would increase our funding costs and compress our net interest margin. We may not succeed in moving our deposits to lower-yielding savings and transactions products, which could materially and adversely affect us. In addition, customers, particularly those who may maintain deposits in excess of insured limits, continue to be concerned about the extent to which their deposits are insured by the FDIC. Our customers may withdraw deposits to ensure that their deposits with us are fully insured and may place excess amounts in other institutions or make investments that are perceived as being more secure and/or higher yielding. Further, even if we are able to maintain and grow our deposit base, deposit balances can decrease when customers perceive alternative investments, such as the stock market, will provide a better risk/return tradeoff. If customers move money out of bank deposits, we could lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Certain deposit balances associated with the BankMobile business segment can vary over the course of the year based on student enrollment and the timing of deposits made into those accounts, with seasonal inflows at the start of each semester that are drawn down until the following semester. Additionally, any such loss of funds could result in lower loan originations and growth, which could materially and adversely affect our results of operations and financial condition, including liquidity.

Competitors' technology-driven products and services and improvements to such products and services may adversely affect our ability to generate core deposits through mobile banking.

Our organic growth strategy focuses on, among other things, expanding market share through our "high-tech" model, which includes remote account opening, remote deposit capture, mobile and digital banking. These technological advances are intended to allow us to generate additional core deposits at a lower cost than generating deposits through opening and operating branch locations. Some of our competitors may have greater resources to invest in technology and may be better equipped to market new technology-driven products and services. This may result in limiting, reducing or otherwise adversely affecting our growth strategy in this area and our access to deposits through mobile banking. In addition, to the extent we fail to keep pace with technological changes or incur respectively large expenses to implement technological changes, our business, financial condition and results of operations may be adversely affected.

We may incur losses due to minority investments in other financial institutions or related companies.

From time to time, we may make or consider making minority investments in other financial institutions or technology companies in the financial services business. If we do so, we may not be able to influence the activities of companies in which we invest and may suffer losses due to these activities. Investments in foreign companies could pose additional risks as a result of distance, language barriers and potential lack of information (for example, foreign institutions, including foreign financial institutions, may not be obligated to provide as much information regarding their operations as those in the United States). Our investment in Religare, which is a diversified financial services company in India, represents such an investment. In fourth quarter 2016, we announced our decision to exit our investment in Religare. As a result of that decision, we recorded an impairment loss of $7.3 million in earnings in fourth quarter 2016 and adjusted our cost basis of the Religare securities to their estimated fair value of $15.2 million at December 31, 2016. During the year ended December 31, 2017, Customers recorded impairment losses of $12.9 million related to its equity holdings in Religare for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through September 30, 2017, because Customers no longer had the intent to hold these securities until a recovery in fair value. At December 31, 2020, Customers has not concluded on a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare impairment. The adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a $1.0 million reduction in accumulated other comprehensive income (loss) and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption are recorded directly in earnings, which resulted in an unrealized loss of $1.6 million being recognized in other non-interest income in the accompanying consolidated statements of income for the year ended December 31, 2018. As of December 31, 2020, the fair value of the Religare equity securities was $3.9 million, which resulted in an unrealized gain of $1.4 million being recognized in other non-interest income in the consolidated statements of income for the year ended December 31, 2020. Future declines in the market price per share of the Religare common stock and adverse changes in foreign currency exchange rates, may have an adverse effect on our financial condition and results of operations.

We are required to hold capital for United States bank regulatory purposes to support our investment in Religare securities.

Under the U.S. capital adequacy rules, which became effective as of January 1, 2015, we have to hold risk-based capital based on the amount of Religare common stock we own. Based upon the implementation of the final U.S. capital adequacy rules, these investments are currently subject to risk weighting of 100% of the amount of the investment; however, to the extent future aggregated carrying value of certain equity exposures exceeds 10% of our then total capital, risk weightings of 300% may apply. Any capital that is required to be used to support our Religare investment will not be available to support our United States operations or Customers Bank, if needed.

Risks related to the divestiture of BMT

We will continue to face the risks and challenges associated with BM Technologies after completion of the merger of BMT with Megalith Financial Acquisition Corp.

On January 4, 2021, we completed the divestiture of BMT through the merger of BMT with MFAC. In connection with the closing of the divestiture, MFAC changed its name to "BM Technologies, Inc." Our agreement with MFAC relating to the merger of BMT and MFAC was amended to provide that the shares issuable by MFAC in connection with the merger would be issued directly to Customers Bancorp shareholders rather than being issued to and held by us. In connection with the divestiture, we have entered into various agreements with BM Technologies, including a transition services agreement, software license agreement, deposit servicing agreement, non-competition agreement and loan agreement for periods ranging from one to ten years. BM Technologies also assumed BMT's borrowing from us of approximately $12.2 million as a result of the transaction. This borrowing was further paid down to $5.4 million as of February 26, 2021. We will continue to face the risks and challenges associated with BM Technologies through these agreements. For example, the need to provide transition services to BM Technologies, Inc. may result in the diversion of resources and management's focus. We are also exposed to potential liabilities to the acquirer under the contractual provisions such as representation, warranties and indemnities. If we are unable to address and manage these risks, our business, financial condition and results of operations could be adversely affected.

Risks related to the COVID-19 Pandemic and Macroeconomic Conditions

Worsening general business and economic conditions could materially and adversely affect us.

Our business and operations are sensitive to general business and economic conditions in the United States. If the U.S. economy experiences worsening conditions such as a recession, we could be materially and adversely affected. Weak economic conditions may be characterized by deflation, instability in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on loans, residential and commercial real estate price declines and lower home sales and commercial activity. Adverse changes in any of these factors could be detrimental to our business. Our business is also significantly affected by monetary and related policies of the U.S. Federal Government, its agencies and government-sponsored entities. Adverse changes in economic factors or U.S. Government policies could have a negative effect on us.

Over the last several years, there have been several instances where there has been uncertainty regarding the ability of Congress and the President collectively to reach agreement on federal budgetary and spending matters. A period of failure to reach agreement on these matters, particularly if accompanied by an actual or threatened government shutdown, may have an adverse impact on the U.S. economy. Additionally, a prolonged government shutdown may inhibit our ability to evaluate borrower creditworthiness and originate and sell certain government-backed loans.

In addition, the U.S. economy contracted into a recession in the first half of 2020, primarily driven by the COVID-19 pandemic. The U.S. government and the Federal Reserve responded to the pandemic with unprecedented measures. In addition to the Federal Reserve reducing the target federal funds rate, Congress passed the CARES Act that included an estimated $2 trillion stimulus package. Although the U.S. economy began to recover in third quarter 2020 as social distancing policies loosened, economic metrics in fourth quarter 2020 indicate an uneven path to recovery. In December 2020, Congress amended the CARES Act with the CAA to provide an additional $900 billion of stimulus relief to mitigate the continued impacts of the pandemic. While certain factors point to improving economic conditions, uncertainty remains regarding the path of the economic recovery, the mitigating impacts of government interventions, the success of vaccine distribution and the efficacy of administered vaccines, as well as the effects of the change in leadership resulting from the recent elections. Conditions related to inflation, recession, unemployment, volatile interest rates, international conflicts, changes in trade policies and other factors, such as real estate values, state and local municipal budget deficits, government spending and the U.S. national debt may, directly and indirectly, adversely affect our financial condition and results of operations.

The COVID-19 pandemic has impacted our business, and the ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities. As a result, the demand for our products and services may be significantly impacted.

Furthermore, the pandemic has influenced and could further influence the recognition of credit losses in our loan and lease portfolios and has increased and could further increase our ACL, particularly as businesses remain closed and as more customers may draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, the securities we hold may lose value. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. In response to the pandemic, we have also enacted hardship relief assistance for customers experiencing financial difficulty as a result of COVID-19, including fee and penalty waivers, loan deferrals or other scenarios that may help our customers. In addition, we are a lender for the SBA's PPP and other SBA, Federal Reserve or United States Treasury programs that have been or may be created in the future in response to the pandemic. These programs, including the new round of PPP under the CAA, are new and their effects on Customers' business are uncertain. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

To the extent the COVID-19 pandemic continues to adversely affect the economy, and/or adversely affects our business, results of operations or financial condition, it may also have the effect of increasing the likelihood and/or magnitude of other risks described herein, including those risks related to business operations, industry/market, our securities and credit, or risks described in our other filings with the SEC.

We are a participating lender in SBA's PPP program and have originated a significant number of loans under this program, which may result in a material amount of PPP loans remaining on our consolidated balance sheets at a very low yield for an extended period of time.

The PPP, originally established under the CARES Act and extended under the Economic Aid Act and CAA, authorizes financial institutions to make federally-guaranteed loans to qualifying small businesses and non-profit organizations. These loans carry an interest rate of 1% per annum and a maturity of 2 years for loans originated prior to June 5, 2020 and 5 years for loans originated on or after June 5th. The PPP provides that such loans may be forgiven if the borrowers meet certain requirements with respect to maintaining employee headcount and payroll and the use of the loan proceeds after the loan is originated. The initial phase of the PPP, after being extended multiple times by Congress, expired on August 8, 2020. However, on January 11, 2021, the SBA reopened the PPP for First Draw PPP loans to small business and non-profit organizations that did not receive a loan through the initial PPP phase. Further, on January 13, 2021, the SBA reopened the PPP for Second Draw loans to small businesses and non-profit organizations that did receive a loan through the initial PPP phase. At least $25 billion has been set aside for Second Draw PPP loans to eligible borrowers with a maximum of 10 employees or for loans of $250,000 or less to eligible borrowers in low or moderate income neighborhoods. Generally, businesses with more than 300 employees and/or less than a 25 percent reduction in gross receipts between comparable quarters in 2019 and 2020 are not eligible for Second Draw loans. Further, maximum loan amounts have been increased for accommodation and food service businesses.

As of December 31, 2020, we had PPP loans with outstanding balances of $4.6 billion. Considering our immediate response to originate PPP loans, the loans originated under this program may present potential fraud risk, increasing the risk that loan forgiveness may not be obtained by the borrowers and that the guaranty may not be honored. In addition, there is risk that the borrowers may not qualify for the loan forgiveness feature due to the conduct of the borrower after the loan is originated. Further, although the SBA has recently streamlined the loan forgiveness process for loans $50,000 or less, it has taken longer than initially anticipated for the SBA to finalize the forgiveness processes. On January 19, 2021, the SBA increased the streamlined loan forgiveness process to loans $150,000 or less. Thus, absent regulatory relief, extended forbearance waiting times due to SBA-related delays are likely. These factors may result in us having to hold a significant amount of these low-yield loans on our books for a significant period of time. Additionally, the PPP loans are not secured by an interest in a borrower's assets or otherwise backed by personal guarantees. We will continue to face increased operational demands and pressures as we monitor and service our PPP loan portfolio, process applications for loan forgiveness and pursue recourse under the SBA guarantees and against borrowers for PPP loan defaults. Further, the second rollout of the PPP may lead to further regulatory action on behalf of the SBA and/or further operational demands, pressures and risk of borrower defaults. We may also be subject to litigation and claims by borrowers under the PPP loans that we have made, as well as investigation and scrutiny by our regulators, Congress, the SBA, the U.S. Treasury Department and other government agencies.

Climate change and related legislative and regulatory initiatives may result in operational changes and expenditures that could significantly impact our business.

The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. In recent years, governments across the world have entered into international agreements to attempt to reduce global temperatures, in part by limiting greenhouse gas emissions. The U.S. Congress, state legislatures and federal and state regulatory agencies have continued to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change. Such initiatives are expected to continue under the new administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systematic risk assessments, revising expectations for credit portfolio concentrations based on climate related factors, and encouraging investment by banks in climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change. These agreements and measures may result in the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes, each of which may require Customers to expend significant capital and incur compliance, operating, maintenance and remediation costs. Given the lack of empirical data on the credit and other financial risks posed by climate change, it is impossible to predict how climate change may impact our financial condition and operations; however, as a banking organization, the physical effects of climate change may present certain unique risks to Customers. For example, weather disasters, shifts in local climates and other disruptions related to climate change may adversely affect the value of real properties securing our loans, which could diminish the value of our loan portfolio. Such events may also cause reductions in regional and local economic activity that may have an adverse effect on our customers, which could limit our ability to raise and invest capital in these areas and communities, each of which could have a material adverse effect on our financial condition and results of operations.

Severe weather, natural disasters, public health issues, acts of war or terrorism, and other external events could significantly impact our ability to conduct business.

Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, adversely impact our team member base, cause significant property damage, result in loss of revenue, and cause us to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Risks Related to the Regulation of Our Industry

Our business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment in which we operate, including the effects of heightened regulatory requirements applicable to banks with assets in excess of $10 billion.

As a bank holding company, we are subject to federal supervision and regulation. Federal regulation of the banking industry, along with tax and accounting laws, regulations, rules and standards, may limit our operations significantly and control the methods by which we conduct business, just as they limit those of other banking organizations. In addition, compliance with laws and regulations can be difficult and costly, and changes to laws and regulations can impose additional compliance costs. The Dodd-Frank Act, which imposes significant regulatory and compliance changes on financial institutions, is an example of this type of federal regulation. Many of these regulations are intended to protect depositors, customers, the public, the banking system as a whole, or the FDIC insurance funds, not stockholders. Regulatory requirements and discretion affect our lending practices, capital structure, investment practices, dividend policy and many other aspects of our business. There are laws and regulations which restrict transactions between us and our subsidiaries. These requirements may constrain our operations, and the adoption of new laws and changes to or repeal of existing laws may have a further impact on our business, financial condition, results of operations and future prospects. Also, the burden imposed by those federal and state regulations may place banks in general, including Customers Bank in particular, at a competitive disadvantage compared to their non-banking competitors. We are also subject to requirements with respect to the confidentiality of information obtained from clients concerning their identities, business and personal financial information, employment and other matters. We require our team members to agree to keep all such information confidential, and we monitor compliance. Failure to comply with confidentiality requirements could result in material liability and adversely affect our business, financial condition, results of operations and future prospects.

Bank holding companies and financial institutions are extensively regulated and currently face an uncertain regulatory environment. Applicable laws, regulations, interpretations, enforcement policies and accounting principles have been subject to significant changes in recent years and may be subject to significant future changes. Future changes may have a material adverse effect on our business, financial condition and results of operations.

Federal and state regulatory agencies may adopt changes to their regulations or change the manner in which existing regulations are applied or interpreted. We cannot predict the substance or effect of pending or future legislation or regulation or the application of laws and regulations on us. Compliance with current and potential regulation, as well as regulatory scrutiny, may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner by requiring us to expend significant time, effort and resources to ensure compliance and respond to any regulatory inquiries or investigations. In addition, press coverage and other public statements that assert some form of wrongdoing by financial services companies (including press coverage and public statements that do not involve us) may result in regulatory inquiries or investigations, which, independent of the outcome, may be time-consuming and expensive and may divert time, effort and resources from our business. Evolving regulations and guidance concerning executive compensation may also impose limitations on us that affect our ability to compete successfully for executive and management talent.

In addition, given the current economic and financial environment, regulators may elect to alter standards or the interpretation of the standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management or other operational practices for financial services companies in a manner that impacts our ability to implement our strategy and could affect us in substantial and unpredictable ways and could have a material adverse effect on our business, financial condition and results of operations. Furthermore, the regulatory agencies have extremely broad direction in their interpretation of the regulations and laws and their interpretation of the quality of our loan portfolio, securities portfolio and other assets. If any regulatory agency's assessment of the quality of our assets, operations, lending practices, investment practices, capital structure or other assets of our business differs from our assessment, we may be required to take additional charges or undertake or refrain from undertaking actions that would have the effect of materially reducing our earnings, capital ratios and share price.

Because our total assets exceeded $10 billion at December 31, 2019, we and our bank subsidiary became subject to increased regulatory requirements in 2020. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets. In addition, banks with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. As a relatively new agency with evolving regulations and practices, there is some uncertainty as to how the CFPB's examination and regulatory authority might impact our business. Further, the possibility of future changes in the authority of the CFPB by Congress or the Biden Administration is uncertain, and we cannot predict the impact, if any, changes to the CFPB may have on our business.

With respect to deposit-taking activities, banks with assets in excess of $10 billion are subject to two changes. First, these institutions are subject to a deposit assessment based on a new scorecard issued by the FDIC. This scorecard considers, among other things, the bank's CAMELS rating, results of asset-related stress testing and funding-related stress, as well as our use of core deposits, among other things. Depending on the results of the bank's performance under that scorecard, the total base assessment rate is between 1.5 to 40 basis points. Any increase in our bank subsidiary's deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source. Additionally, banks with over $10 billion in total assets are no longer exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards. This means that, as of July 1, 2020, our bank subsidiary is limited to receiving only a "reasonable" interchange transaction fee for any debit card transactions processed using debit cards issued by our bank subsidiary to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $10 billion in total assets to receive more than $0.21 plus 5 basis points of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions. This reduction in the amount of interchange fees we receive for electronic debit interchange reduced our revenues in 2020, and will continue to affect our results of operations for the duration of the Deposit Servicing Agreement with BM Technologies.

Our regulators may also consider our compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

We operate in a highly regulated environment, and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could materially and adversely affect us.

We are subject to extensive regulation, supervision and legislation that govern almost all aspects of our operations. Intended to protect customers, depositors and the FDIC's DIF and not our shareholders, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on our business activities, limit the dividends or distributions that we can pay, restrict the ability of our subsidiary bank to engage in transactions with the Bancorp, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than under generally accepted accounting principles. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs and may make certain products impermissible or uneconomic. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, reputational harm, fines and other penalties, any of which could materially and adversely affect us. Further, any new laws, rules and regulations could make compliance more difficult or expensive and also materially and adversely affect us.

Our use of third-party vendors and our other ongoing third-party business relationships are subject to increasing regulatory requirements and attention.

We regularly use third-party vendors as part of our business and have other ongoing business relationships with other third parties, including BM Technologies after the completion of the divestiture of BMT on January 4, 2021. These types of third-party relationships are subject to increasingly demanding regulatory requirements and attention by federal banking regulators. Regulation requires us to perform enhanced due diligence, perform ongoing monitoring and control our-third party vendors and other ongoing third-party business relationships. In certain cases, we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third-party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our-third party vendors or other ongoing third-party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect on our business, financial condition or results of operations.

We are subject to numerous laws and governmental regulations and to regular examinations by our regulators of our business and compliance with laws and regulations, and our failure to comply with such laws and regulations or to adequately address any matters identified during our examinations could materially and adversely affect us.

Federal banking agencies regularly conduct comprehensive examinations of our business, including our compliance with applicable laws, regulations and policies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework can materially impact the conduct, organic and acquisition growth and profitability of our business. Our regulators have extensive discretion in their supervisory and enforcement activities and may impose a variety of remedial actions, conditions or limitations on our business operations if, as a result of an examination, they determined that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we or our management were in violation of any law, regulation or policy. Examples of those actions, conditions or limitations include enjoining “unsafe or unsound” practices, requiring affirmative actions to correct any conditions resulting from any asserted violation of law, issuing administrative orders that can be judicially enforced, directing increases in our capital, assessing civil monetary penalties against our officers or directors, removing officers and directors and, if a conclusion was reached that the offending conditions cannot be corrected, or there is an imminent risk of loss to depositors, terminating our deposit insurance. Other actions, formal or informal, that may be imposed could restrict our growth, including regulatory denials to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities or merge with or purchase other financial institutions. The timing of these examinations, including the timing of the resolution of any issues identified by our regulators in the examinations and the final determination by them with respect to the imposition of any remedial actions, conditions or limitations on our business operations, is generally not within our control. We also could suffer reputational harm in the event of any perceived or actual noncompliance with certain laws and regulations. If we become subject to such regulatory actions, we could be materially and adversely affected.

Other litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities.

Our business is subject to increased litigation and regulatory risks as a result of a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has only intensified since the latest financial crisis and due to COVID-19 pandemic and related federal and state government responses, with regulators and prosecutors focusing on a variety of financial institution practices and requirements, including our origination and servicing of PPP loans and granting of deferments under the CARES Act, as amended by the CAA, and the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus. We may, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our business. Legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. Our involvement in any such matters, even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. Further, any settlement, consent order or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could be material to our business, results of operations, financial condition and cash flows, depending on, among other factors, the level of our earnings for that period and could have a material adverse effect on our business, financial condition or results of operations.

The FDIC’s restoration plan and the related increased assessment rate could materially and adversely affect us.

The FDIC insures deposits at FDIC-insured depository institutions up to applicable limits. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk classification under an FDIC risk-based assessment system. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially and adversely affect us, including reducing our profitability or limiting our ability to pursue certain business opportunities.

The Federal Reserve may require us to commit capital resources to support our subsidiary bank.

As a matter of policy, the Federal Reserve, which examines us and our subsidiaries, expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under this requirement, we could be required to provide financial assistance to Customers Bank or any other subsidiary banks we may own in the future should they experience financial distress.

A capital injection may be required at times when we do not have the resources to provide it, and therefore, we may be required to borrow the funds or raise additional equity capital from third parties. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its indebtedness. Any financing that must be done by the holding company in order to make the required capital injection may be difficult and expensive and may not be available on attractive terms, or at all, which likely would have a material adverse effect on us.

The long-term impact of the new regulatory capital standards and the capital rules on U.S. banks is uncertain.

In September 2010, the Basel Committee on Banking Supervision, announced an agreement to a strengthened set of capital requirements for internationally active banking organizations in the United States and around the world, known as Basel III. Basel III narrowed the definition of capital, introduced requirements for minimum Tier 1 common capital, increased requirements for minimum Tier 1 capital and total risk-based capital, and changed risk-weighting methodologies. Basel III was fully phased in by January 1, 2019.

In July 2013, the Federal Reserve adopted a final rule regarding new capital requirements pursuant to Basel III. These rules, which became effective on January 1, 2015, for community banks, increased the required amount of regulatory capital that we must hold, and failure to comply with the capital rules will lead to limitations on the dividend payments to us by Customers Bank and other elective distributions.

In December 2017, the Basel Committee on Banking Supervision published standards that it described as the finalization of the Basel III regulatory framework (commonly referred to as Basel IV). Among other things, these standards revise the Basel Committee's standardized approach for credit risk and provide a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced-approaches institutions and not to us. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

Various provisions of the Dodd-Frank Act increase the capital requirements of bank holding companies, such as we, and non-bank financial companies that are supervised by the Federal Reserve. The leverage and risk-based capital ratios of these entities may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The Basel III changes and other regulatory capital requirements will likely result in generally higher regulatory capital standards for us.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the Uniting and Strengthening America by PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the DOJ, Drug Enforcement Administration and IRS. There is also increased scrutiny of compliance with the rules enforced by OFAC. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions (such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans), which could materially and adversely affect us. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

Loans that we make through certain federal programs are dependent on the Federal Government's continuation and support of these programs and on our compliance with their requirements.

We participate in various U.S. Government agency guarantee programs, including PPP and other programs operated by the SBA. We are responsible for following all applicable U.S. Government agency regulations, guidelines and policies whenever we originate loans as part of these guarantee programs. If we fail to follow any applicable regulations, guidelines or policies associated with a particular guarantee program, any loans we originate as part of that program may lose the associated guarantee, exposing us to credit risk to which we would not otherwise have been exposed or underwritten as part of our origination process for U.S. Government agency guaranteed loans, or result in our inability to continue originating loans under such programs. The loss of any guarantees for loans we have extended under U.S. Government agency guarantee programs or the loss of our ability to participate in such programs could have a material adverse effect on our business, financial condition or results of operations.

Taxes

Reviews performed by the Internal Revenue Service and state taxing authorities for the fiscal years that remain open for investigation may result in a change to income taxes recorded in our consolidated financial statements and adversely affect our results of operations.

We are subject to U.S. federal income tax as well as income tax of various states primarily in the mid-Atlantic region of the United States. Generally, Customers is no longer subject to examination by federal, state, and local taxing authorities for years prior to the year ended December 31, 2017. Customers is currently under audit by New York for the 2015-2017 tax years and by New York City for the 2016-2017 tax years. The results of these reviews could result in increased recognition of income tax expense in our consolidated financial statements as well as possible fines and penalties.

Changes in U.S. federal, state or local tax laws may negatively impact our financial performance.

We are subject to changes in tax law that could increase Customers' effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect Customers' current and future financial performance. In December 2017, the Tax Act was signed into law, which resulted in significant changes to the Code. The Tax Act reduced Customers' Federal corporate income tax rate to 21% beginning in 2018. However, the Tax Act also imposed limitations on Customers' ability to take certain deductions, such as the deduction for FDIC deposit insurance premiums, which partially offset the increase in net income from the lower tax rate.

In addition, a number of the changes to the Code were introduced through the CARES Act and the CAA, and some of the provisions are set to expire in future years. There is substantial uncertainty concerning whether those expiring provisions will be extended, or whether future legislation will further revise the Code. Also, the current administration has indicated it may propose increases to the federal corporate statutory tax rate. An increase in the federal corporate tax rate may increase our tax provision expense. We are unable to predict whether these changes, or other proposals, will ultimately be enacted.

Risks Related to Our Securities

Risks Related to Our Voting Common Stock

The trading volume in our common stock may generally be less than that of other larger financial services companies.

Although the shares of our common stock are listed on the NYSE, the trading volume in our common stock may generally be less than that of many other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of our common stock at any given time, which presence will be dependent upon the individual decisions of investors, over which we have no control. Illiquidity of the stock market, or in the trading of our common stock on the NYSE, could have a material adverse effect on the value of your shares, particularly if significant sales of our common stock, or the expectation of significant sales, were to occur.

We do not expect to pay cash dividends on our common stock in the foreseeable future, and our ability to pay dividends is subject to regulatory limitations.

We have not historically declared nor paid cash dividends on our common stock, and we do not expect to do so in the near future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, the ability to service any equity or debt obligations senior to the common stock, our planned growth in assets and other factors deemed relevant by the board of directors. We must be current in the payment of dividends to holders of our Series C, Series D, Series E and Series F Preferred Stock before any dividends can be paid on our common stock.

In addition, as a bank holding company, we are subject to general regulatory restrictions on the payment of cash and in-kind dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which, depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Further, various federal and state statutory provisions limit the amount of dividends that our bank subsidiary can pay to us as its holding company without regulatory approval. See “Market Price of Common Stock and Dividends – Dividends on Common Stock” below for further detail regarding restrictions on our ability to pay dividends.

We may issue additional shares of our common stock in the future which could adversely affect the value or voting power of our outstanding common stock.

Actual or anticipated issuances or sales of substantial amounts of our common stock in the future could cause the value of our common stock to decline significantly and make it more difficult for us to sell equity or equity-related securities in the future at a time and on terms that we deem appropriate. The issuance of any shares of our common stock in the future also would, and equity-related securities could, dilute the percentage ownership interest held by shareholders prior to such issuance. Actual issuances of our common stock could also significantly dilute the voting power of the common stock.

We have also made grants of restricted stock units and stock options with respect to shares of our common stock to our directors and certain team members. We may also issue further equity-based awards in the future. As such shares are issued upon vesting and as such options may be exercised and the underlying shares are or become freely tradeable, the value or voting power of our common stock may be adversely affected, and our ability to sell more equity or equity-related securities could also be adversely affected.

At December 31, 2020, we are not required to issue any additional equity securities to existing holders of our common stock on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities, warrants or options, will generally dilute the holdings of our existing holders of common stock, and such issuances or the perception of such issuances may reduce the market price of our common stock. Our outstanding preferred stock has preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to holders of our common stock. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital-raising efforts is uncertain. Thus, holders of our common stock bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the value of our common stock.

Future issuances of debt securities, which would rank senior to our common stock upon our liquidation, and future issuances of equity securities, which would dilute the holdings of our existing holders of common stock and may be senior to our common stock for the purposes of making distributions, periodically or upon liquidation, may negatively affect the market price of our common stock.

In the future, we may issue debt or equity securities or incur other borrowings. Upon our liquidation, holders of our debt securities and other loans and preferred stock will receive a distribution of our available assets before holders of our common stock. If we incur debt in the future, our future interest costs could increase and adversely affect our liquidity, cash flows and results of operations.

Provisions in our articles of incorporation and bylaws may inhibit a takeover of us, which could discourage transactions that would otherwise be in the best interests of our shareholders and could entrench management.

Provisions of our articles of incorporation and bylaws and applicable provisions of Pennsylvania law and the federal CBCA may delay, inhibit or prevent someone from gaining control of our business through a tender offer, business combination, proxy contest or some other method even though some of our shareholders might believe a change in control is desirable. They might also increase the costs of completing a transaction in which we acquire another financial services business, merge with another financial institution or sell our business to another financial institution. These increased costs could reduce the value of the shares held by our shareholders upon completion of these types of transactions.

Shareholders may be deemed to be acting in concert or otherwise in control of us and our bank subsidiaries, which could impose prior approval requirements and result in adverse regulatory consequences for such holders.

We are a bank holding company regulated by the Federal Reserve. Any entity (including a "group" composed of natural persons) owning 25% or more of a class of our outstanding shares of voting stock, or a lesser percentage if such holder or group otherwise exercises a "controlling influence" over us, may be subject to regulation as a "bank holding company" in accordance with the BHCA. In addition, (i) any bank holding company or foreign bank with a U.S. presence is required to obtain the approval of the Federal Reserve under the BHCA to acquire or retain 5% or more of a class of our outstanding shares of voting stock and (ii) any person other than a bank holding company may be required to obtain prior regulatory approval under the CBCA to acquire or retain 10% or more of our outstanding shares of voting stock. Any shareholder that is deemed to "control" the company for bank regulatory purposes would become subject to prior approval requirements and ongoing regulation and supervision. Such a holder may be required to divest amounts equal to or exceeding 5% of the voting shares of investments that may be deemed incompatible with bank holding company status, such as an investment in a company engaged in non-financial activities. Regulatory determination of "control" of a depository institution or holding company is based on all of the relevant facts and circumstances. Potential investors are advised to consult with their legal counsel regarding the applicable regulations and requirements.

Our common stock owned by holders determined by a bank regulatory agency to be acting in concert would be aggregated for purposes of determining whether those holders have control of a bank or bank holding company. Each shareholder obtaining control that is a "company" would be required to register as a bank holding company. "Acting in concert" generally means knowing participation in a joint activity or parallel action towards the common goal of acquiring control of a bank or a parent company, whether or not pursuant to an express agreement. The manner in which this definition is applied in individual circumstances can vary and cannot always be predicted with certainty. Many factors can lead to a finding of acting in concert, including where: (i) the shareholders are commonly controlled or managed; (ii) the shareholders are parties to an oral or written agreement or understanding regarding the acquisition, voting or transfer of control of voting securities of a bank or bank holding company; (iii) the shareholders each own stock in a bank and are also management officials, controlling shareholders, partners or trustees of another company or (iv) both a shareholder and a controlling shareholder, partner, trustee or management official of such shareholder own equity in the bank or bank holding company.

Our directors and executive officers can influence the outcome of shareholder votes and, in some cases, shareholders may not have the opportunity to evaluate and affect the investment decision regarding potential investment, acquisition or disposition transactions.

As of December 31, 2020, our directors and executive officers, as a group, owned a total of 2,588,734 shares of common stock and exercisable options to purchase up to an additional 679,701 shares of common stock, which potentially gives them, as a group, the ability to control approximately 10.31% of the outstanding common stock. In addition, a director of Customers Bank who is not a director of Customers Bancorp owns an additional 44,430 shares of common stock, which if combined with the directors and officers of Customers Bancorp, potentially gives them, as a group, the ability to control approximately 10.45% of the outstanding common stock. We believe ownership of stock causes directors and officers to have the same interests as shareholders, but it also gives them the ability to vote as shareholders for matters that are in their personal interest, which may be contrary to the wishes of other shareholders. Shareholders will not necessarily be provided with an opportunity to evaluate the specific merits or risks of one or more potential investment, acquisition or disposition transactions. Any decision regarding a potential investment or acquisition transaction will be made by our board of directors. Except in limited circumstances as required by applicable law, consummation of an acquisition will not require the approval of holders of common stock. Accordingly, shareholders may not have an opportunity to evaluate and affect the board of directors' decision regarding most potential investment or acquisition transactions and/or certain disposition transactions.

The FDIC's policy statement imposing restrictions and criteria on private investors in failed bank acquisitions will apply to us and our investors.

In August 2009, the FDIC issued a policy statement imposing restrictions and criteria on private investors in failed bank acquisitions. The policy statement is broad in scope and both complex and potentially ambiguous in its application. In most cases, it would apply to an investor with more than 5% of the total voting power of an acquired depository institution or its holding company; but in certain circumstances, it could apply to investors holding fewer voting shares. The policy statement will be applied to us if we make additional failed bank acquisitions from the FDIC or if the FDIC changes its interpretation of the policy statement or determines at some future date that it should be applied because of our circumstances.

Investors subject to the policy statement could be prohibited from selling or transferring their interests for three years. They also would be required to provide the FDIC with information about the investor and all entities in the investor's ownership chain, including information on the size of the capital fund or funds, its diversification, its return profile, its marketing documents, and its management team and business model. Investors owning 80% or more of two or more banks or savings associations would be required to pledge their proportionate interests in each institution to cross-guarantee the FDIC against losses to the DIF.

Under the policy statement, the FDIC also could prohibit investment through ownership structures involving multiple investment vehicles that are owned or controlled by the same parent company. Investors that directly or indirectly hold 10% or more of the equity of a bank or savings association in receivership also would not be eligible to bid to become investors in the deposit liabilities of that failed institution. In addition, an investor using ownership structures with entities that are domiciled in bank-secrecy jurisdictions would not be eligible to own a direct or indirect interest in an insured depository institution unless the investor's parent company is subject to comprehensive consolidated supervision as recognized by the Federal Reserve, and the investor enters into certain agreements with the U.S. bank regulators regarding access to information, maintenance of records and compliance with U.S. banking laws and regulations. If the policy statement applies, we (including any failed bank we acquire) could be required to maintain a ratio of Tier 1 common equity to total assets of at least 10% for a period of three years and thereafter maintain a capital level sufficient to be well capitalized under regulatory standards during the remaining period of ownership of the investors. Bank subsidiaries also may be prohibited from extending any new credit to investors that own at least 10% of our equity.

Risks Related to Our Fixed-to-Floating-Rate Non-Cumulative Perpetual Preferred Stock, Series C, Series D, Series E and Series F

The shares of our Series C, Series D, Series E and Series F Preferred Stock are equity securities and are subordinate to our existing and future indebtedness.

The shares of Series C, Series D, Series E and Series F Preferred Stock are equity interests in Customers Bancorp and do not constitute indebtedness of Customers Bancorp or any of our subsidiaries and rank junior to all of our existing and future indebtedness and other non-equity claims with respect to assets available to satisfy claims against us, including claims in the event of our liquidation. If we are forced to liquidate our assets to pay our creditors, we may not have sufficient funds to pay amounts due on any or all of the Series C, Series D, Series E and Series F Preferred Stock then outstanding.

We may not pay dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock.

Dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock are payable only if declared by our board of directors or a duly authorized committee of the board. As a bank holding company, we are subject to general regulatory restrictions on the payment of cash dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which, depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Further, various federal and state statutory provisions limit the amount of dividends that our bank subsidiary can pay to us as its holding company without regulatory approval.

Dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock are non-cumulative.

Dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock are payable only when, as and if authorized and declared by our board of directors or a duly authorized committee of the board. Consequently, if our board of directors or a duly authorized committee of the board does not authorize and declare a dividend for any dividend period, holders of the Series C, Series D, Series E and Series F Preferred Stock will not be entitled to receive any such dividend, and such unpaid dividend will cease to accrue or be payable. If we do not declare and pay dividends on the Series C, Series D, Series E and Series F Preferred Stock, the market prices of the shares of Series C, Series D, Series E and Series F Preferred Stock may decline.

Our ability to pay dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock is dependent on dividends and distributions we receive from our subsidiaries, which are subject to regulatory and other limitations.

Our principal source of cash flow is dividends from Customers Bank. We cannot assure you that Customers Bank will, in any circumstances, pay dividends to us. If Customers Bank fails to make dividend payments or other permitted distributions to us, and sufficient cash is not otherwise available, we may not be able to make dividend payments on the Series C, Series D, Series E and Series F Preferred Stock. Various federal and state statutes, regulations and rules limit, directly or indirectly, the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval. In particular, dividend and other distributions from Customers Bank to us would require notice to or approval of the applicable regulatory authority. There can be no assurances that we would receive such approval.

In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary's liquidation or otherwise, and, as a result, the ability of a holder of Series C, Series D, Series E and Series F Preferred Stock to benefit indirectly from such distribution, will be subject to the prior claims of preferred equity holders and creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, shares of the Series C, Series D, Series E and Series F Preferred Stock are effectively subordinated to all existing and future liabilities and any outstanding preferred equity of our subsidiaries.

Holders of Series C, Series D, Series E and Series F Preferred Stock should not expect us to redeem their shares when they first become redeemable at our option or on any particular date thereafter, and our ability to redeem the shares will be subject to the prior approval of the Federal Reserve.

Our Series C, Series D, Series E and Series F Preferred Stock are perpetual equity securities, meaning that they have no maturity date or mandatory redemption date, and the shares are not redeemable at the option of the holders thereof. Any determination we make at any time to propose a redemption of the Series C, Series D, Series E and Series F Preferred Stock will depend upon a number of factors, including our evaluation of our capital position, the composition of our shareholders' equity and general market conditions at that time. In addition, our right to redeem the Series C, Series D, Series E and Series F Preferred Stock is subject to any limitations established by the Federal Reserve. Under the Federal Reserve's risk-based capital guidelines applicable to bank holding companies, any redemption of the Series C, Series D, Series E and Series F Preferred Stock is subject to prior approval of the Federal Reserve. There can be no assurance that the Federal Reserve will approve any such redemption.

We may be able to redeem the Series C, Series D, Series E and Series F Preferred Stock before their initial redemption dates upon a "regulatory capital treatment event."

We may be able to redeem the Series C, Series D, Series E and Series F Preferred Stock before their respective initial redemption dates, in whole but not in part, upon the occurrence of certain events involving the capital treatment of the Series C, Series D, Series E and Series F Preferred Stock, as applicable. In particular, upon our determination in good faith that an event has occurred that would constitute a "regulatory capital treatment event," with respect to a particular series of the preferred stock, we may redeem that particular series of securities in whole, but not in part, upon the prior approval of the Federal Reserve.

Holders of Series C, Series D, Series E and Series F Preferred stock have limited voting rights.

Holders of Series C, Series D, Series E and Series F Preferred Stock have no voting rights with respect to matters that generally require the approval of voting shareholders. However, holders of Series C, Series D, Series E and Series F Preferred Stock will have the right to vote in the event of non-payments of dividends under certain circumstances, with respect to authorizing classes or series of preferred stock senior to the Series C, Series D, Series E and Series F Preferred Stock, as applicable, and with respect to certain fundamental changes in the terms of the Series C, Series D, Series E and Series F Preferred Stock, as applicable, or as otherwise required by law.

General market conditions and unpredictable factors could adversely affect market prices for the Series C, Series D, Series E and Series F Preferred Stock.

There can be no assurance regarding the market prices for the Series C, Series D, Series E and Series F Preferred Stock. A variety of factors, many of which are beyond our control, could influence the market prices, including:

- whether we declare or fail to declare dividends on the series of preferred stock from time to time;
- our operating performance, financial condition and prospects or the operating performance, financial condition and prospects of our competitors;
- real or anticipated changes in the credit ratings (if any) assigned to the Series C, Series D, Series E and Series F Preferred Stock or our other securities;
- our creditworthiness;
- changes in interest rates and expectations regarding changes in rates;
- our issuance of additional preferred equity;
- the market for similar securities;
- developments in the securities, credit and housing markets, and developments with respect to financial institutions generally; and
- economic, financial, corporate, securities market, geopolitical, regulatory or judicial events that affect us, the banking industry or the financial markets generally.

The Series C, Series D, Series E and Series F Preferred Stock may not have an active trading market.

Although the shares of Series C, Series D, Series E and Series F Preferred Stock are listed on the NYSE, an active trading market may not be established or maintained for the shares, and transaction costs could be high. As a result, the difference between bid and ask prices in any secondary market could be substantial.

The Series C, Series D, Series E and Series F Preferred Stock may be junior or equal in rights and preferences to preferred stock we may issue in the future.

Our Series C, Series D, Series E and Series F Preferred Stock rank equally. Although we do not currently have outstanding preferred stock that ranks senior to the Series C, Series D, Series E and Series F Preferred Stock, the Series C, Series D, Series E and Series F Preferred Stock may rank junior to other preferred stock we may issue in the future that by its terms is expressly senior in rights and preferences to the Series C, Series D, Series E and Series F Preferred Stock, although the affirmative vote or consent of the holders of at least two-thirds of all outstanding shares of the affected class of preferred stock is required to issue any shares of stock ranking senior in rights and preferences to such class. Any preferred stock that ranks senior to the Series C, Series D, Series E and Series F Preferred Stock in the future would have priority in payment of dividends and the making of distributions in the event of any liquidation, dissolution or winding up of Customers Bancorp. Additional issuances by us of preferred stock ranking equally with Series C, Series D, Series E and Series F Preferred Stock do not generally require the approval of holders of the Series C, Series D, Series E and Series F Preferred Stock.

Risks Related to Our Senior Notes and Subordinated Notes

Our 4.5% Senior Notes, 3.95% Senior Notes, 6.125% Subordinated Notes and 5.375% Subordinated Notes contain limited covenants.

The terms of our 4.5% Senior Notes and 3.95% Senior Notes, which we refer to as the Senior Notes, and 6.125% and 5.375% Subordinated Notes, which we refer to as the Subordinated Notes, generally do not prohibit us from incurring additional debt or other liabilities. If we incur additional debt or liabilities, our ability to pay our obligations on the Senior Notes and Subordinated Notes could be adversely affected. In addition, the terms of our Senior Notes and Subordinated Notes do not require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flows or liquidity and, accordingly, do not protect holders of those notes in the event that we experience material adverse changes in our financial condition or results of operations. Holders of the Senior Notes and Subordinated Notes also have limited protection in the event of a highly leveraged transaction, reorganization, default under our existing indebtedness, restructuring, merger or similar transaction.

Our ability to make interest and principal payments on the Senior Notes and Subordinated Notes is dependent on dividends and distributions we receive from our subsidiaries, which are subject to regulatory and other limitations.

Our principal source of cash flow is dividends from Customers Bank. We cannot assure you that Customers Bank will, in any circumstances, pay dividends to us. If Customers Bank fails to make dividend payments to us, and sufficient cash is not otherwise available, we may not be able to make interest and principal payments on the Senior Notes and Subordinated Notes. Various federal and state statutes, regulations and rules limit, directly or indirectly, the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval. In particular, dividend and other distributions from Customers Bank to us would require notice to or approval of the applicable regulatory authority. There can be no assurances that we would receive such approval.

In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary's liquidation or otherwise, and, as a result, the ability of a holder of the 4.5% Senior Notes and 3.95% Senior Notes to benefit indirectly from such distribution will be subject to the prior claims of preferred equity holders and creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, the 4.5% Senior Notes and 3.95% Senior Notes are effectively subordinated to all existing and future liabilities and any outstanding preferred equity of our subsidiaries.

We may not be able to generate sufficient cash to service our debt obligations, including our obligations under the Senior Notes and Subordinated Notes.

Our ability to make payments on and to refinance our indebtedness, including the Senior Notes and Subordinated Notes will depend on our financial and operating performance, including dividends payable to us from Customers Bank, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

If our cash flows and capital resources and dividends from Customers Bank are insufficient to fund our debt service obligations, we may be unable to provide new loans, other products or to fund our obligations to existing customers and otherwise implement our business plans. As a result, we may be unable to meet our scheduled debt service obligations. In the absence of sufficient operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations or seek to restructure our indebtedness, including the notes. We may not be able to consummate these transactions, and these proceeds may not be adequate to meet our debt service obligations when due.

The Senior Notes and Subordinated Notes are our unsecured obligations. The Senior Notes will rank equal in right of payment with all of our secured and unsecured senior indebtedness and will rank senior in right of payment to all of our subordinated indebtedness. Although the Senior Notes are "senior notes," they will be effectively subordinate to all liabilities of our subsidiaries. Because the Senior Notes are unsecured, they will be effectively subordinated to all of our future secured senior indebtedness to the extent of the value of the assets securing such indebtedness.

The Subordinated Notes will rank equal in right of payment with all of our secured and unsecured subordinated indebtedness and will rank junior in right of payment to all of our senior indebtedness, including the Senior Notes. As is the case with the Senior Notes, the Subordinated Notes are effectively subordinated to all liabilities of our subsidiaries. Because the Subordinated Notes are unsecured, they will be effectively subordinated to all of our future secured subordinated indebtedness to the extent of the value of the assets securing such indebtedness.

The Senior Notes and Subordinated Notes may not have an active trading market.

The Senior Notes and 6.125% Subordinated Notes are not listed on any securities exchange, and there is no active trading market for these notes. Although the 5.375% Subordinated Notes are listed on the NYSE, there is no guarantee that a trading market will develop or be maintained. In addition to the other factors described below, the lack of a trading market for the Senior Notes and Subordinated Notes may adversely affect the holder's ability to sell the notes and the prices at which the notes may be sold.

The prices realizable from sales of the Senior Notes and Subordinated Notes in any secondary market also will be affected by the supply and demand of the notes, the interest rate, the ranking and a number of other factors, including:

- yields on U.S. Treasury obligations and expectations about future interest rates;
- actual or anticipated changes in our financial condition or results, including our levels of indebtedness;
- general economic conditions and expectations regarding the effects of national policies;
- investors' views of securities issued by both holding companies and similar financial service firms; and
- the market for similar securities.

General Risk Factors

Downgrades in U.S. government and federal agency securities could adversely affect us.

The long-term impact of the downgrade of the U.S. government and federal agencies from an AAA to an AA+ credit rating is still uncertain. However, in addition to causing economic and financial market disruptions, the downgrade, and any future downgrades and/or failures to raise the U.S. debt limit if necessary in the future, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities owned by us, the availability of those securities as collateral for borrowing and our ability to access capital markets on favorable terms, as well as have other material adverse effects on the operation of our business and our financial results and condition. In particular, it could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed-income markets, adversely affecting the cost and availability of funding, which could negatively affect profitability. Also, the adverse consequences as a result of the downgrade could extend to the borrowers of the loans we make and, as a result, could adversely affect our borrowers' ability to repay their loans.

We may not be able to maintain consistent earnings or profitability.

Although we made profit for the years 2011 through 2020, there can be no assurance that we will be able to remain profitable in future periods, or, if profitable, that our overall earnings will remain consistent or increase in the future. Our earnings also may be reduced by increased expenses associated with increased assets, such as additional team member compensation expense, and increased interest expense on any liabilities incurred or deposits solicited to fund increases in assets. If earnings do not grow proportionately with our assets or equity, our overall profitability may be adversely affected.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Customers leases its Corporate headquarters located at 701 Reading Avenue, West Reading, PA 19611, and its Bank headquarters at 99 Bridge St., Phoenixville, PA 19460. Customers also leases all of its branches, limited purpose, and administrative office properties from third parties. Customers believes that its offices are sufficient for its present operations.

Item 3. Legal Proceedings

For information on Customers' legal proceedings, refer to "NOTE 21 - LOSS CONTINGENCIES" to the consolidated financial statements.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Trading Market for Common Stock

Our common stock is traded on the NYSE under the symbol "CUBI."

As of February 26, 2021, there were approximately 362 registered shareholders of Customers Bancorp's common stock. Certain shares are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

Dividends on Common Stock

Customers Bancorp historically has not paid any cash dividends on its shares of common stock and does not expect to do so in the foreseeable future.

Any future determination relating to our dividend policy will be made at the discretion of Customers Bancorp's board of directors and will depend on a number of factors, including earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, ability to service any equity or debt obligations senior to our common stock, including obligations to pay dividends to the holders of Customers Bancorp's issued and outstanding shares of preferred stock and other factors deemed relevant by the Board of Directors.

In addition, as a bank holding company, Customers Bancorp is subject to general regulatory restrictions on the payment of cash dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which, depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Further, various federal and state statutory provisions limit the amount of dividends that bank subsidiaries can pay to their parent holding company without regulatory approval. Generally, subsidiaries are prohibited from paying dividends when doing so would cause them to fall below the regulatory minimum capital levels, and limits exist on paying dividends in excess of net income for specified periods.

Beginning January 1, 2015, the ability to pay dividends and the amounts that can be paid will be limited to the extent the Bank's capital ratios do not exceed the minimum required levels plus 250 basis points, as these requirements were phased in through January 1, 2019. See "Item 1, Business - Federal Banking Laws" for more information relating to restrictions on the Bank's ability to pay dividends to the Bancorp and the Bancorp's payment of dividends.

Special Dividends of BM Technologies, Inc. Common Stock

On January 4, 2021, Customers Bancorp completed the previously announced divestiture of BankMobile Technologies, Inc., a wholly owned subsidiary of Customers Bank, to MFAC Merger Sub Inc., an indirect wholly-owned subsidiary of Megalith Financial Acquisition Corp. ("MFAC"), pursuant to an Agreement and Plan of Merger, dated August 6, 2020, as amended, by and among MFAC, MFAC Merger Sub Inc., BMT, Customers Bank and Customers Bancorp. In connection with the closing of the divestiture, MFAC changed its name to "BM Technologies, Inc." and began trading on the NYSE under the ticker symbol "BMTX".

Upon closing of the divestiture, Customers received cash consideration of $23.1 million and holders of Customers common stock who held their Customers shares as of the close of business on December 18, 2020 received an aggregate of 4,876,387 shares of BM Technologies' common stock in the form of special dividend. Each holder of Customers common stock was entitled to receive 0.15389 shares of BM Technologies' common stock for each share of Customers common stock held as of the close of business on December 18, 2020. No fractional shares of BM Technologies' common stock were issued; fractional share otherwise issuable were rounded to the nearest whole share. Certain team members of BMT also received 1,348,748 shares of BM Technologies' common stock as severance.

Issuer Purchases of Equity Securities

Customers Bancorp did not purchase any shares of its common stock during the year ended December 31, 2020 pursuant to an existing stock repurchase plan.

EQUITY COMPENSATION PLANS

The following table provides certain summary information as of December 31, 2020, concerning our compensation plans (including individual compensation arrangements) under which shares of our common stock may be issued.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options and Rights (#)	Weighted-Average Exercise Price of Outstanding Options ($) [2]	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column) (#)
Equity Compensation Plans			
Approved by Security Holders [1]	3,540,252	$ 21.32	1,719,901
Equity Compensation Plans Not			
Approved by Security Holders [3]	300,000	**N/A**	—

(1) Includes shares of common stock that may be issued upon the exercise of awards granted or rights accrued under the Amended and Restated Customers Bancorp, Inc. 2004 Incentive Equity and Deferred Compensation Plan, Customers Bancorp, Inc. 2010 Plan, the BRRP, Customers Bancorp, Inc. Amended and Restated 2014 ESPP, and the Customers Bancorp, Inc. 2019 Plan. Customers discontinued the BRRP in 2019, upon receipt of shareholder approval of the 2019 Plan.

(2) Does not include restricted stock units and stock awards for which, by definition, there exists no exercise price.

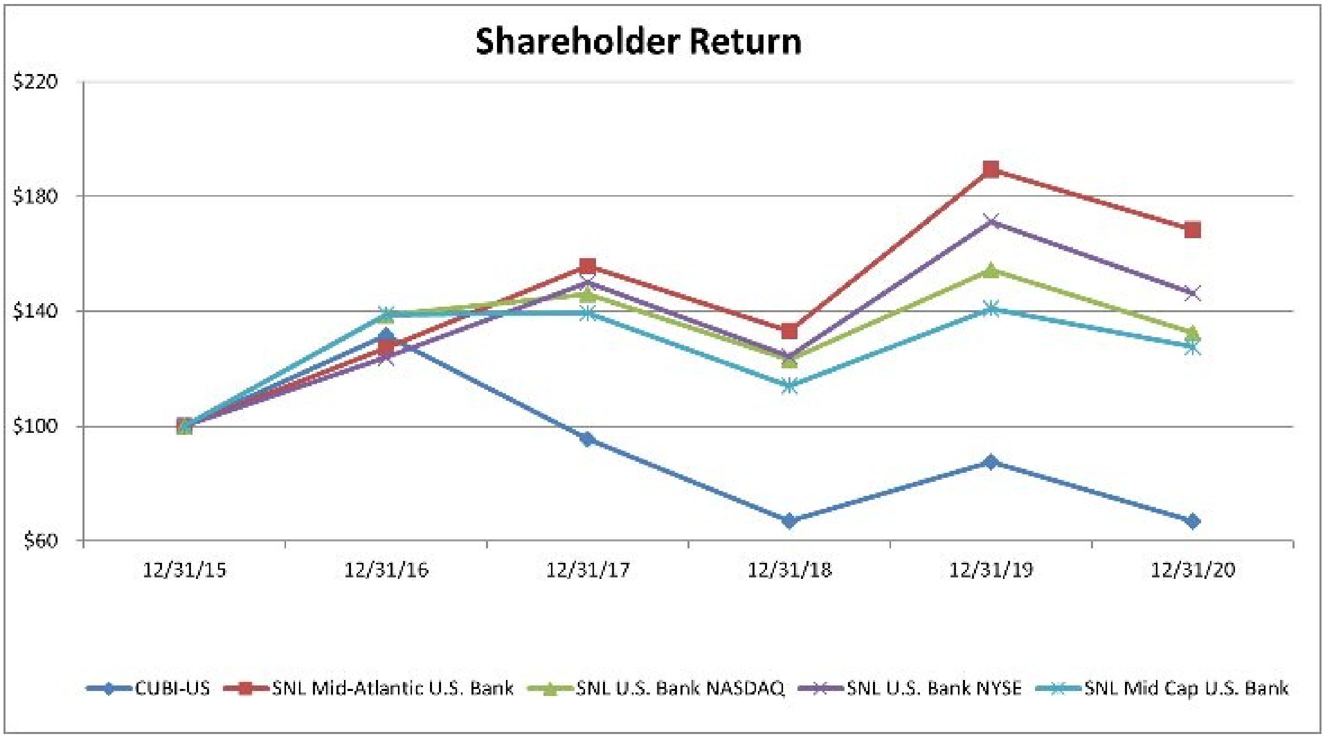
(3) Relates to an initial inducement award of 300,000 restricted stock units in connection with an executive appointment during 2020. The grant of the restricted stock units was made outside of the Customers Bancorp Inc. 2019 Plan and approved by the independent members of Customers Board of Directors including all of the members of its Compensation Committee.

Common Stock Performance Graph

The following graph compares the performance of our common stock over the period from December 31, 2015 to December 31, 2020, to that of the total return index for the SNL Mid-Atlantic U.S. Bank Index, SNL U.S. Bank NASDAQ Index, SNL U.S. Bank NYSE Index, and SNL Mid Cap U.S. Bank index, assuming an investment of $100 on December 31, 2015 for the SNL indices when calculating total annual shareholder return, reinvestment of dividends, if any, is assumed. Customers Bancorp obtained the information contained in the performance graph from SNL Financial.

The graph below is furnished under this Part II, Item 5 of this Annual Report on Form 10-K and shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

Total Return Performance



Item 6. Selected Financial Data

Customers Bancorp, Inc. and Subsidiaries

The following table presents Customers' summary consolidated financial data. The summary consolidated financial data should be read in conjunction with, and is qualified in their entirety by, Customers Bancorp's financial statements and the accompanying notes and the other information included elsewhere in this Annual Report on Form 10-K.

(dollars in thousands, except per share information)	2020	2019	2018	2017	2016
For the Years Ended December 31,					
Interest income	$ 543,304	$ 463,739	$ 417,951	$ 372,850	$ 322,539
Interest expense	139,616	186,429	160,074	105,507	73,042
Net interest income	403,688	277,310	257,877	267,343	249,497
Provision for credit losses on loans and leases	62,774	24,227	5,642	6,768	3,041
Total non-interest income	101,734	80,938	58,998	78,910	56,370
Total non-interest expense	266,690	231,901	220,179	215,606	178,231
Income before income tax expense	175,958	102,120	91,054	123,879	124,595
Income tax expense	43,380	22,793	19,359	45,042	45,893
Net income	132,578	79,327	71,695	78,837	78,702
Preferred stock dividends	14,041	14,459	14,459	14,459	9,515
Net income available to common shareholders	$ 118,537	$ 64,868	$ 57,236	$ 64,378	$ 69,187
Earnings per common share:					
Basic earnings per common share	$ 3.76	$ 2.08	$ 1.81	$ 2.10	$ 2.51
Diluted earnings per common share	$ 3.74	$ 2.05	$ 1.78	$ 1.97	$ 2.31
At Period End					
Total assets	$ 18,439,248	$ 11,520,717	$ 9,833,425	$ 9,839,555	$ 9,382,736
Cash and cash equivalents	693,354	212,505	62,135	146,323	264,709
Investment securities available for sale, at fair value	1,210,285	595,876	665,012	471,371	493,474
Loans held for sale	79,086	486,328	1,507	146,077	695
Loans receivable, mortgage warehouse, at fair value	3,616,432	2,245,758	1,405,420	1,793,408	2,116,815
Loans receivable, PPP	4,561,365	—	—	—	—
Loans and leases receivable	7,575,368	7,318,988	7,138,074	6,768,258	6,154,637
Allowance for credit losses on loans and leases	144,176	56,379	39,972	38,015	37,315
Deposits	11,309,929	8,648,936	7,142,236	6,800,142	7,303,775
Borrowings (1)	5,820,447	1,692,745	1,667,918	2,062,237	1,147,706
Shareholders' equity (2)	1,117,086	1,052,795	956,816	920,964	855,872
Tangible common equity (3)	885,317	820,129	722,846	687,198	620,780
Selected Ratios and Share Data					
Return on average assets	0.85 %	0.74 %	0.69 %	0.77 %	0.86 %
Return on average common equity	14.55 %	8.30 %	7.90 %	9.38 %	12.41 %
Book value per common share	$ 28.37	$ 26.66	$ 23.85	$ 22.42	$ 21.08
Tangible book value per common share (3)	$ 27.92	$ 26.17	$ 23.32	$ 21.90	$ 20.49
Common shares outstanding	31,705,088	31,336,791	31,003,028	31,382,503	30,289,917
Net interest margin, tax equivalent (3)	2.71 %	2.75 %	2.58 %	2.73 %	2.84 %
Equity to assets	6.06 %	9.14 %	9.73 %	9.36 %	9.12 %
Tangible common equity to tangible assets (3)	4.80 %	7.13 %	7.36 %	7.00 %	6.63 %
Common equity Tier 1 capital to risk-weighted assets – Customers Bancorp, Inc.	8.08 %	7.98 %	8.96 %	8.81 %	8.49 %
Common equity Tier 1 capital to risk-weighted assets – Customers Bank	10.62 %	11.32 %	12.82 %	13.08 %	11.63 %
Tier 1 risk-based capital ratio – Customers Bancorp, Inc.	9.92 %	10.10 %	11.58 %	11.58 %	11.41 %

Tier 1 risk-based capital ratio – Customers Bank	10.62 %	11.32 %	12.82 %	13.08 %	11.63 %
Total risk-based capital ratio – Customers Bancorp, Inc.	11.86 %	12.21 %	13.01 %	13.05 %	13.05 %
Total risk-based capital ratio – Customers Bank	12.06 %	12.93 %	14.62 %	14.96 %	13.61 %
Tier 1 leverage ratio – Customers Bancorp, Inc.	8.60 %	9.26 %	9.67 %	8.94 %	9.07 %
Tier 1 leverage ratio – Customers Bank	9.21 %	10.38 %	10.70 %	10.09 %	9.23 %
Asset Quality					
Non-performing loans	$ 70,508	$ 21,346	$ 27,494	$ 26,415	$ 17,792
Non-performing loans to loans and leases receivable (4)	0.93 %	0.29 %	0.39 %	0.39 %	0.29 %
Non-performing loans to total loans and leases receivable	0.45 %	0.21 %	0.32 %	0.30 %	0.22 %
Other real estate owned	$ 57	$ 173	$ 816	$ 1,726	$ 3,108
Non-performing assets (5)	$ 71,175	$ 21,519	$ 28,310	$ 28,141	$ 20,900
Non-performing assets(5) to total assets	0.39 %	0.19 %	0.29 %	0.29 %	0.22 %
Allowance for credit losses on loans and leases to loans and leases receivable (6)	1.90 %	0.77 %	0.56 %	0.56 %	0.61 %
Allowance for credit losses on loans and leases to non-performing loans	204.48 %	264.12 %	145.38 %	143.91 %	209.73 %
Net charge-offs	$ 54,807	$ 7,820	$ 3,685	$ 6,068	$ 1,662
Net charge-offs to average total loans and leases receivable	0.41 %	0.08 %	0.05 %	0.09 %	0.03 %

(1) Borrowings includes FHLB advances, Federal funds purchased, PPPLF, subordinated debt and other borrowings.
(2) Includes a decrease to retained earnings of $61.5 million, net of taxes, for the cumulative effect of adopting the CECL methodology on January 1, 2020.
(3) Non-GAAP measure. Please refer to the reconciliation schedules that follow this table.
(4) Loans and leases receivable as of December 31, 2020 excludes loans receivable, PPP. Non-GAAP measure. Please refer to the reconciliation schedules in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, LOANS AND LEASES, *Asset Quality*".
(5) Non-performing assets includes OREO of $57 thousand and $610 thousand of repossessed assets as of December 31, 2020.
(6) Excludes loans receivable, mortgage warehouse, at fair value, and loans receivable, PPP, both of which are not evaluated for impairment and do not have an ACL. The ACL for December 31, 2020 was calculated using the CECL methodology effective January 1, 2020. Non-GAAP measure. Please refer to the reconciliation schedules in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, LOANS AND LEASES, *Credit Risk*".

Customers' selected financial data contains non-GAAP financial measures which include net interest margin tax equivalent, tangible common equity and tangible book value per common share, and tangible common equity to tangible assets. Management uses these non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing the Bancorp's financial results and use of equity. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Customers Bancorp calculates tangible common equity by excluding intangible assets from total shareholders' equity. Tangible book value per common share equals tangible common equity divided by common shares outstanding. The non-GAAP tax-equivalent basis uses a marginal tax rate of 26% for the year ended December 31, 2020, 2019 and 2018, and a marginal tax rate of 35% for the years ended December 31, 2017 and 2016 to approximate interest income as a taxable asset.

A reconciliation of shareholders' equity to tangible common equity and other related amounts is set forth below.

(in thousands, except share and per share data)	2020	2019	2018	2017	2016
Total shareholders' equity (GAAP)	$ 1,117,086	$ 1,052,795	$ 956,816	$ 920,964	$ 855,872
Less: goodwill and other intangibles	(14,298)	(15,195)	(16,499)	(16,295)	(17,621)
Less: preferred stock	(217,471)	(217,471)	(217,471)	(217,471)	(217,471)
Tangible common equity (Non-GAAP)	$ 885,317	$ 820,129	$ 722,846	$ 687,198	$ 620,780
Shares outstanding	31,705,088	31,336,791	31,003,028	31,382,503	30,289,917
Book value per common share (GAAP)	$ 28.37	$ 26.66	$ 23.85	$ 22.42	$ 21.08
Less: effect of excluding intangible assets	(0.45)	(0.49)	(0.53)	(0.52)	(0.59)
Tangible book value per common share (Non-GAAP)	$ 27.92	$ 26.17	$ 23.32	$ 21.90	$ 20.49
Total assets (GAAP)	$ 18,439,248	$ 11,520,717	$ 9,833,425	$ 9,839,555	$ 9,382,736
Less: goodwill and other intangibles	(14,298)	(15,195)	(16,499)	(16,295)	(17,621)
Total tangible assets (Non-GAAP)	$ 18,424,950	$ 11,505,522	$ 9,816,926	$ 9,823,260	$ 9,365,115
Equity to assets (GAAP)	6.06 %	9.14 %	9.73 %	9.36 %	9.12 %
Tangible common equity to tangible assets (Non-GAAP)	4.80 %	7.13 %	7.36 %	7.00 %	6.63 %

A reconciliation of net interest income to net interest income tax equivalent and other related amounts is set forth below.

(dollars in thousands)	2020	2019	2018	2017	2016
Net interest income (GAAP)	$ 403,688	$ 277,310	$ 257,877	$ 267,343	$ 249,497
Tax-equivalent adjustment	874	735	685	645	390
Net interest income tax equivalent (Non-GAAP)	$ 404,562	$ 278,045	$ 258,562	$ 267,988	$ 249,887
Average total interest earning assets	$ 14,933,317	$ 10,123,708	$ 10,011,799	$ 9,820,762	$ 8,791,304
Net interest margin (GAAP)	2.70 %	2.74 %	2.58 %	2.72 %	2.84 %
Net interest margin, tax equivalent (Non-GAAP)	2.71 %	2.75 %	2.58 %	2.73 %	2.84 %

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis should be read in conjunction with "Business - Executive Summary" and the Bancorp’s consolidated financial statements and related notes for the year ended December 31, 2020. For the comparison of the years ended December 31, 2019 and 2018, refer to Part II, Item 7 "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" of our Annual Report on Form 10-K for our fiscal year ended December 31, 2019, filed with the SEC on March 2, 2020.

Overview

Like most financial institutions, Customers derives the majority of its income from interest it receives on its interest-earning assets, such as loans and investments. Customers' primary source of funds for making these loans and investments are its deposits and borrowings, on which it pays interest. Consequently, one of the key measures of Customers' success is the amount of its net interest income, or the difference between the income on its interest-earning assets and the expense on its interest-bearing liabilities, such as deposits and borrowings. Another key measure is the difference between the interest income generated by interest-earning assets and the interest expense on interest-bearing liabilities, relative to the amount of average interest-earning assets, which is referred to as net interest margin.

BankMobile, a division of Customers Bank, derived a majority of its revenue from interest income on installment loans, interchange and card revenue and deposit fees. On January 4, 2021, Customers Bancorp completed the divestiture of BankMobile Technologies, Inc., a wholly-owned subsidiary of Customers Bank and a component of BankMobile, through a merger with Megalith Financial Acquisition Corp. In connection with the closing of the divestiture, MFAC changed its name to “BM Technologies, Inc.” All of BankMobile’s serviced deposits and loans including the related net interest income will remain with Customers Bank after the completion of the divestiture. Beginning in first quarter 2021, BMT's historical financial results for periods prior to the divestiture will be reflected in Customers Bancorp’s results of operations as discontinued operations. Customers Bancorp's financial condition as of December 31, 2020 and the results of its operations for the years ended December 31, 2020, 2019 and 2018 included the assets and liabilities and financial results of BankMobile. As a result of the divestiture, Customers' interchange income, deposit account fees and subscription fees are expected to decrease. In addition, Customers' non-interest expenses, such as salaries and employee benefits, technology, professional services, merger and acquisition related expenses and other non-interest expenses, including reimbursements from the white label relationship associated with BMT are expected to decrease. In connection with the divestiture, Customers has also entered into various agreements with BM Technologies, including a transition services agreement, software license agreement, deposit servicing agreement, non-competition agreement and loan agreement for periods ranging from one to ten years. Customers will continue to incur non-interest expenses associated with these agreements with BM Technologies in the future. See NOTE 26 – SUBSEQUENT EVENTS to Customers Bancorp's audited financial statements for additional information.

There is credit risk inherent in all loans, so Customers maintains an ACL to absorb probable losses on existing loans and leases that may become uncollectible. Customers maintains this allowance by charging a provision for credit losses against its operating earnings. Customers has included a detailed discussion of this process, as well as several tables describing its ACL, in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION and NOTE 7 - LOANS AND LEASES RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES to Customers' audited financial statements.

Impact of COVID-19

In March 2020, the outbreak of COVID-19 was recognized as a pandemic by the World Health Organization. The spread of COVID-19 has created a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that Customers serves. Governmental responses during the pandemic have included orders closing businesses not deemed essential and directing individuals to restrict their movements, observe social distancing and shelter in place. These actions, together with responses to the pandemic by businesses and individuals, have resulted in rapid decreases in commercial and consumer activity, temporary closures of many businesses that have led to a loss of revenues and a rapid increase in unemployment, material decreases in oil and gas prices and in business valuations, disrupted global supply chains, market downturns and volatility, changes in consumer behavior related to pandemic fears, related emergency response legislation and an expectation that Federal Reserve policy will maintain a low interest rate environment for the foreseeable future.

Customers has taken deliberate actions to ensure that it has the necessary balance sheet strength to serve its clients and communities, including increases in liquidity and reserves supported by a strong capital position. Customers' business and consumer customers are experiencing varying degrees of financial distress, which is expected to continue in the coming months. In order to protect the health of its customers and team members, and to comply with applicable government directives, Customers has modified its business practices, including restricting team member travel, directing team members to work from home insofar as is possible and implementing its business continuity plans and protocols to the extent necessary. Customers also has made donations that have resulted in more than $1 million, either directly or indirectly, to communities in its footprint for urgent basic needs and has been re-targeting existing sponsorship and grants to nonprofit organizations to support COVID-19 related activities.

On March 27, 2020, the CARES Act was signed into law. It contains substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The CARES Act includes the SBA's PPP, a nearly $350 billion program designed to aid small- and medium-sized businesses through federally guaranteed loans distributed through banks. These loans are intended to guarantee an eight-week or 24-week period of payroll and other costs to help those businesses remain viable and allow their workers to pay their bills. On April 16, 2020, the SBA announced that all available funds had been exhausted and applications were no longer being accepted. On April 22, 2020, an additional $310 billion of funds for the PPP was signed into law. On August 8, 2020, the SBA announced that the PPP was closed and no longer accepting PPP applications from participating lenders. However, on December 27, 2020, the CAA was signed into law, which provides $284 billion in additional funding for the SBA's PPP for small businesses affected by the COVID-19 pandemic. The CAA provides small businesses who received an initial PPP loan and experienced a 25% reduction in gross receipts to request a second PPP loan of up to $2.0 million. On January 11, 2021, the SBA reopened the PPP program to small business and non-profit organizations that did not receive a loan through the initial PPP phase. As of December 31, 2020, Customers has helped thousands of small businesses by originating about $5.0 billion in PPP loans directly or through fintech partnerships. Customers also began accepting applications for the new round of PPP loans on January 11, 2021.

In response to the COVID-19 pandemic, Customers has also implemented a loan modification program to provide temporary payment relief to certain of its borrowers who meet the program's qualifications. This program allows for a deferral of payments for a maximum of 90 days at a time. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date of the existing loan. As of December 31, 2020, total commercial deferments declined to $202.1 million, or 1.8% of total loans and leases, excluding PPP loans, from a peak of $1.2 billion earlier in 2020 and total consumer deferments declined to $16.4 million, or 0.1% of total loans and leases, excluding PPP loans. Excluding loans receivable, PPP from total loans and leases receivable is a non-GAAP measure. Management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Please refer to the following reconciliation schedule.

(dollars in thousands)	December 31, 2020
Loans held for sale (GAAP)	$ 79,086
Loans receivable, mortgage warehouse, at fair value (GAAP)	3,616,432
Loans and leases receivable (GAAP)	12,136,733
Total loans and leases receivable (GAAP)	15,832,251
Less: Loans receivable, PPP	4,561,365
Total loans and leases, excluding PPP (Non-GAAP)	$ 11,270,886
Commercial deferments (GAAP)	$ 202,100
Consumer deferments (GAAP)	$ 16,400
Commercial deferments to total loans and leases, excluding PPP (Non-GAAP)	1.8 %
Consumer deferments to total loans and leases, excluding PPP (Non-GAAP)	0.1 %

The FRB has taken a range of actions to support the flow of credit to households and businesses. For example, on March 15, 2020, the FRB reduced the target range for the federal funds rate to 0 to 0.25% and announced that it would increase its holdings of U.S. Treasury securities and agency mortgage-backed securities and begin purchasing agency commercial mortgage-backed securities. The FRB has also encouraged depository institutions to borrow from the discount window and has lowered the primary credit rate for such borrowing by 150 basis points while extending the term of such loans up to 90 days. Reserve requirements have been reduced to zero as of March 26, 2020. The FRB has also established, or has taken steps to establish, a range of facilities and programs to support the U.S. economy and U.S. marketplace participants in response to economic disruptions associated with COVID-19, including among others, Main Street Lending facilities to purchase loan participations, under specified conditions, from banks lending to small and medium U.S. businesses and the PPPLF, which was created to bolster the effectiveness of the PPP by taking loans as collateral at face value. While Customers has not participated in all of these facilities or programs to date, it may participate in some or all of these facilities or programs, including as a lender, agent, or intermediary on behalf of clients or customers at various times in the future. As of December 31, 2020, Customers had $4.4 billion in borrowing from the PPPLF.

Significant uncertainties as to future economic conditions exist, and Customers has taken deliberate actions in response, including higher levels of on-balance sheet liquidity and maintaining strong capital ratios. Additionally, the economic pressures, coupled with the implementation of an expected lifetime loss methodology for determining our provision for credit losses as required by CECL have contributed to an increased provision for credit losses on loans and leases and off-balance sheet credit exposures in first quarter 2020. Customers continues to monitor the impact of COVID-19 closely, as well as any effects that may result from the CARES Act and the CAA; however, the extent to which the COVID-19 pandemic will impact Customers' operations and financial results during 2021 is highly uncertain.

New Accounting Pronouncements

For information about the impact that recently adopted, including CECL, or issued accounting guidance will have on us, refer to NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements.

Critical Accounting Policies

Customers has adopted various accounting policies that govern the application of U.S. GAAP and that are consistent with general practices within the banking industry in the preparation of its consolidated financial statements. Customers' significant accounting policies are described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements.

Certain accounting policies involve significant judgments and assumptions by Customers that have a material impact on the carrying value of certain assets. Customers considers these accounting policies to be critical accounting policies. The judgments and assumptions used are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions management makes, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of Customers' assets.

The critical accounting policy that is both important to the portrayal of Customers' financial condition and results of operations and require complex, subjective judgments is the ACL. This critical accounting policy and material estimate, along with the related disclosures, are reviewed by Customers' Audit Committee of the Board of Directors.

Allowance for Credit Losses

Customers' ACL at December 31, 2020 represents Customers' current estimate of the lifetime credit losses expected from its loan and lease portfolio and its unfunded lending-related commitments that are not unconditionally cancellable. Management estimates the ACL by projecting a lifetime loss rate conditional on a forecast of economic parameters and other qualitative adjustments, for the loans and leases' expected remaining term.

Customers uses external sources in the creation of its forecasts, including current economic conditions and forecasts for macroeconomic variables over its reasonable and supportable forecast period (e.g., GDP growth rate, unemployment rate, BBB spread, commercial real estate and home price index). After the reasonable and supportable forecast period, which ranges from two to five years, the models revert the forecasted macroeconomic variables to their historical long-term trends, without specific predictions for the economy, over the expected life of the pool, while also incorporating prepayment assumptions into its lifetime loss rates. Internal factors that impact the quarterly allowance estimate include the level of outstanding balances, portfolio performance and assigned risk ratings. Significant loan/borrower attributes utilized in the models include property type, initial loan to value, assigned risk ratings, delinquency status, origination date, maturity date, initial FICO scores, and borrower state.

The ACL may be affected materially by a variety of qualitative factors that Customers considers to reflect its current judgement of various events and risks that are not measured in our statistical procedures, including uncertainty related to the economic forecasts used in the modeled credit loss estimates, nature and volume of the loan and lease portfolio, credit underwriting policy exceptions, peer comparison, industry data, and model and data limitations. The qualitative allowance for economic forecast risk is further informed by multiple alternative scenarios to arrive at a composite scenario supporting the period-end ACL balance. The evaluation process is inherently imprecise and subjective as it requires significant management judgment based on underlying factors that are susceptible to changes, sometimes materially and rapidly. Customers recognizes that this approach may not be suitable in certain economic environments such that additional analysis may be performed at management's discretion. Due in part to its subjectivity, the qualitative evaluation may be materially impacted during periods of economic uncertainty and late breaking events that could lead to revision of reserves to reflect management's best estimate of expected credit losses.

The ACL is established in accordance with our ACL policy. The ACL Committee, which includes the Chief Financial Officer, Chief Accounting Officer, Chief Risk Officer, and Chief Credit Officer, among others, reviews the adequacy of the ACL each quarter, together with Customers' risk management team. The ACL policy, significant judgements and the related disclosures are reviewed by Customers' Audit Committee of the Board of Directors.

The increase in our estimated ACL as of December 31, 2020 as compared to our January 1, 2020 estimate was primarily attributable to the significant economic impact of COVID-19 and the related federal stimulus from the federal government, along with loan growth in Customers' commercial and consumer loan portfolios. The total reserve build for the ACL for the year ended December 31, 2020 was $6.9 million, for an ending balance of $146.5 million ($144.2 million for loans and leases and $2.3 million for unfunded lending-related commitments) as of December 31, 2020.

To determine the ACL as of December 31, 2020, Customers utilized the Moody's December 2020 Baseline forecast to generate its modelled expected losses and considered Moody's other alternative economic forecast scenarios to qualitatively adjust the modelled ACL by loan portfolio in order to reflect management's reasonable expectations of current and future economic conditions. The Baseline forecast at December 31, 2020 assumed continued improvement in forecasts of macroeconomic conditions compared to the previous earlier forecasts of macroeconomic conditions used by Customers during 2020; the Federal Reserve maintaining a target range for the fed funds rate at 0% to 0.25% until the second half of 2023; and an additional $908 billion of stimulus from the federal government. Customers continues to monitor the impact of the COVID-19 pandemic and related policy measures on the economy and, if the depth of the recession or pace of the expected recovery is worse than expected, further meaningful provisions for credit losses could be required.

One of the most significant judgments influencing the ACL is the macro-economic forecasts from Moody's. Changes in the economic forecasts could significantly affect the estimated credit losses which could potentially lead to materially different allowance levels from one reporting period to the next. Given the dynamic relationship between macro-economic variables within Customers' modelling framework, it is difficult to estimate the impact of a change in any one individual variable on the allowance. However, to illustrate a hypothetical sensitivity analysis, management calculated a quantitative allowance using a 100% weighting applied to an adverse scenario. This scenario includes assumptions around new infections and COVID-19 deaths being significantly above the Baseline projections, leading to a much slower re-opening of the economy. Under this scenario, as an example, the unemployment rate remains elevated for a prolonged period and is estimated to remain at 9.0% and 9.1% at the end of 2021 and 2022, respectively. These numbers represent a 2.1% and 3.1% higher unemployment estimate than Baseline scenario projections of 6.9% and 6.0%, respectively for the same time periods. To demonstrate the sensitivity to key economic parameters, management calculated the difference between a 100% baseline weighting and a 100% adverse scenario weighting for modeled results. This would result in an incremental quantitative allowance impact of approximately $60.8 million. This resulting difference is not intended to represent an expected increase in ACL levels since (i) Customers uses a weighted approach applied to multiple economic scenarios for its ACL process, (ii) the highly uncertain economic environment, (iii) the difficulty in predicting inter-relationships between macroeconomic variables used in various economic scenarios, and (iv) the sensitivity analysis does not account for any qualitative adjustments incorporated by Customers as part of its overall ACL framework.

There is no certainty that Customers' ACL will be appropriate over time to cover losses in our portfolio as economic and market conditions may ultimately differ from our reasonable and supportable forecast. Additionally, events adversely affecting specific customers, industries, or Customers' markets, such as the current COVID-19 pandemic, could severely impact our current expectations. If the credit quality of Customers' customer base materially deteriorates or the risk profile of a market, industry, or group of customers changes materially, Customers' net income and capital could be materially adversely affected which, in turn could have a material adverse effect on Customers' financial condition and results of operations. The extent to which the current COVID-19 pandemic has and will continue to negatively impact Customers' businesses, financial condition, liquidity and results will depend on future developments, which are highly uncertain and cannot be forecasted with precision at this time.

For more information, see NOTE 7 - LOANS AND LEASES RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES ON LOANS AND LEASES to the audited financial statements.

Results of Operations

The following discussion of Customers Bancorp's consolidated results of operations should be read in conjunction with its consolidated financial statements, including the accompanying notes. Please refer to Critical Accounting Policies in this Management's Discussion and Analysis and NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements for information concerning certain significant accounting policies and estimates applied in determining reported results of operations.

The following table sets forth the condensed statements of income for the years ended December 31, 2020 and 2019:

	For the Years Ended December 31,			
(dollars in thousands)	2020	2019	Change	% Change
Net interest income	$ 403,688	$ 277,310	$ 126,378	45.6 %
Provision for credit losses on loans and leases	62,774	24,227	38,547	159.1 %
Total non-interest income	101,734	80,938	20,796	25.7 %
Total non-interest expense	266,690	231,901	34,789	15.0 %
Income before income tax expense	175,958	102,120	73,838	72.3 %
Income tax expense	43,380	22,793	20,587	90.3 %
Net income	132,578	79,327	53,251	67.1 %
Preferred stock dividends	14,041	14,459	(418)	(2.9)%
Net income available to common shareholders	$ 118,537	$ 64,868	$ 53,669	82.7 %

Customers reported net income available to common shareholders of $118.5 million for the year ended December 31, 2020, compared to $64.9 million for the year ended December 31, 2019. Factors contributing to the change in net income available to common shareholders for the year ended December 31, 2020 compared to the year ended December 31, 2019 were as follows:

Net interest income

Net interest income increased $126.4 million for the year ended December 31, 2020 compared to the year ended December 31, 2019 as average interest-earning assets increased by $4.8 billion, partially offset by a 4 basis point decline in NIM to 2.71% for the year ended December 31, 2020. The decline in NIM resulted from the Federal Reserve interest rate cuts of 225 basis points beginning in August 2019 and the shift in the mix of interest-earning assets and interest-bearing liabilities drove a 94 basis point decline in the yield on interest-earning assets and a 117 basis point decline in the cost of interest-bearing liabilities for the year ended December 31, 2020. The largest shift in the mix of interest-earning assets and interest-bearing liabilities was the origination of $5.0 billion (with $4.6 billion balance at December 31, 2020 and $3.1 billion average balance) in PPP loans yielding 2.10% and related PPPLF borrowings of $4.4 billion at December 31, 2020 ($2.5 billion average balance) costing 0.35%. Customers' total cost of funds, including non-interest bearing deposits, was 0.97% and 1.95% for the years ended December 31, 2020 and 2019, respectively.

Provision for credit losses on loans and leases

The $38.5 million increase in the provision for loan and lease losses for the year ended December 31, 2020 compared to the year ended December 31, 2019, reflects Customers' adoption of CECL and the impact of COVID-19. Upon adoption of the CECL standard on January 1, 2020, the ACL for loans and leases and off-balance sheet credit exposures increased by $79.8 million and $3.4 million, respectively. The ACL on off-balance sheet credit exposures is presented within accrued interest payable and other liabilities in the consolidated balance sheet and the related provision is presented as part of other non-interest expense on the consolidated income statement. The ACL on loans and leases held for investment, represented 1.90% of total loans and leases receivable, excluding PPP loans (non-GAAP measure, please refer to the non-GAAP reconciliation within Loans and Leases, *Credit Risk*), at December 31, 2020, compared to 0.77% at December 31, 2019.

Net charge-offs for the year ended December 31, 2020 were $54.8 million, or 41 basis points of average total loans and leases, compared to $7.8 million, or eight basis points of average total loans and leases for the year ended December 31, 2019. The increase in net charge-offs was primarily due to partial charge-offs of $25.2 million for two commercial real estate collateral dependent loans during the year ended December 31, 2020, and an increase in charge-offs of installment loans coinciding with the growth of the portfolio year-over-year.

Non-interest income

The $20.8 million increase in non-interest income for the year ended December 31, 2020 compared to the year ended December 31, 2019 resulted primarily from $19.1 million in gains realized from the sale of AFS debt securities during the year ended December 31, 2020, $7.5 million loss on acquisition of interest-only GNMA securities during the year ended December 31, 2019, and increases of $6.1 million in commercial lease income, $4.4 million in mortgage warehouse transactional fees, $1.6 million in mortgage banking income, and $1.0 million in deposit fees. These increases were offset in part by decreases of $7.9 million in interchange and card revenue, $10.1 million in other non-interest income, and $0.8 million in gains on sale of SBA and other loans for the year ended December 31, 2020 compared to the year ended December 31, 2019.

Non-interest expense

The $34.8 million increase in non-interest expense for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from increases of $18.4 million in salaries and employee benefits, $9.4 million in technology, communication, and bank operations, $5.8 million in FDIC assessments, non-income taxes, and regulatory fees, $5.2 million in commercial lease depreciation, $2.0 million in merger and acquisition related expenses, $1.9 million in professional services, and $1.5 million in loan workout costs. These increases were offset in part by decreases of $4.4 million in provision for operating losses, $1.8 million in advertising and promotion, and $2.6 million in other non-interest expense for the year ended December 31, 2020 compared to the year ended December 31, 2019.

Income tax expense

Customers' effective tax rate was 24.7% for the year ended December 31, 2020 compared to 22.3% for the year the ended December 31, 2019. The increase in the effective tax rate for the year ended December 31, 2020 compared to the year ended December 31, 2019 was primarily due to the dilution of the permanent tax differences and other tax benefits as a result of increased pre-tax income.

Preferred stock dividends

Preferred stock dividends were $14.0 million and $14.5 million for the years ended December 31, 2020 and 2019, respectively. There were no changes to the amount of preferred stock outstanding during the years ended December 31, 2020 and 2019. On June 15, 2020, the Series C preferred stock became floating at three-month LIBOR plus 5.30% compared to a fixed rate of 7.00%.

NET INTEREST INCOME

Net interest income (the difference between the interest earned on loans and leases, investments and interest-earning deposits with banks, and interest paid on deposits, borrowed funds and subordinated debt) is the primary source of Customers' earnings. The following table summarizes Customers' net interest income, related interest spread, net interest margin and the dollar amount of changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2020 and 2019. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	For the Years Ended December 31,						For the Years Ended December 31,		
	2020			2019			2020 vs. 2019		
(dollars in thousands)	Average balance	Interest income or expense	Average yield or cost	Average balance	Interest income or expense	Average yield or cost	Due to rate	Due to volume	Total
Assets									
Interest-earning deposits	$ 564,218	$ 3,301	0.59 %	$ 103,833	$ 2,782	2.68 %	$ (3,613)	$ 4,132	$ 519
Investment securities (1)	836,815	24,206	2.89 %	653,694	23,713	3.63 %	(5,392)	5,885	493
Loans and leases:									
Commercial loans to mortgage companies	2,668,642	83,043	3.11 %	1,799,489	82,329	4.58 %	(31,499)	32,213	714
Multi-family loans	2,020,640	77,743	3.85 %	2,982,185	115,380	3.87 %	(593)	(37,044)	(37,637)
Commercial and industrial loans and leases (2)	2,581,119	106,375	4.12 %	2,111,181	107,267	5.08 %	(22,332)	21,440	(892)
PPP loans	3,121,157	65,508	2.10 %	—	—	— %	—	65,508	65,508
Non-owner occupied commercial real estate loans	1,368,684	53,480	3.91 %	1,243,236	56,322	4.53 %	(8,178)	5,336	(2,842)
Residential mortgages	422,696	16,137	3.82 %	694,889	28,860	4.15 %	(2,147)	(10,576)	(12,723)
Installment loans	1,264,255	109,762	8.68 %	445,166	41,333	9.28 %	(2,838)	71,267	68,429
Total loans and leases (3)	13,447,193	512,048	3.81 %	9,276,146	431,491	4.65 %	(88,088)	168,645	80,557
Other interest-earning assets	85,091	3,749	4.41 %	90,035	5,753	6.39 %	(1,702)	(302)	(2,004)
Total interest-earning assets	14,933,317	$ 543,304	3.64 %	10,123,708	$ 463,739	4.58 %	(108,905)	188,470	79,565
Non-interest-earning assets	671,484			543,962					
Total assets	$ 15,604,801			$ 10,667,670					
Liabilities									
Interest checking accounts	$ 2,098,138	$ 18,707	0.89 %	$ 955,630	$ 17,384	1.82 %	$ (12,056)	$ 13,379	$ 1,323
Money market deposit accounts	3,657,422	35,091	0.96 %	3,151,328	68,676	2.18 %	(43,242)	9,657	(33,585)
Other savings accounts	1,162,472	16,734	1.44 %	538,375	11,421	2.12 %	(4,584)	9,897	5,313
Certificates of deposit	1,357,688	21,513	1.58 %	1,943,361	43,983	2.26 %	(11,226)	(11,244)	(22,470)
Total interest-bearing deposits (4)	8,275,720	92,045	1.11 %	6,588,694	141,464	2.15 %	(79,748)	30,329	(49,419)
FRB PPP Liquidity Facility	2,537,744	8,906	0.35 %	—	—	— %	—	8,906	8,906
Borrowings	1,504,760	38,665	2.57 %	1,523,171	44,965	2.95 %	(5,760)	(540)	(6,300)
Total interest-bearing liabilities	12,318,224	$ 139,616	1.13 %	8,111,865	$ 186,429	2.30 %	(119,001)	72,188	(46,813)
Non-interest-bearing deposits (4)	2,052,376			1,430,149					
Total deposits and borrowings	14,370,600		0.97 %	9,542,014		1.95 %			
Other non-interest-bearing liabilities	201,961			126,325					
Total liabilities	14,572,561			9,668,339					
Shareholders' equity	1,032,240			999,331					
Total liabilities and shareholders' equity	$ 15,604,801			$ 10,667,670					
Net interest earnings		$ 403,688			$ 277,310		$ 10,096	$ 116,282	$ 126,378
Tax-equivalent adjustment (5)		874			734				
Net interest earnings		$ 404,562			$ 278,044				
Interest spread			2.67 %			2.63 %			
Net interest margin			2.70 %			2.74 %			
Net interest margin tax equivalent (5)			2.71 %			2.75 %			
Net interest margin tax equivalent, excluding PPP loans (6)			2.96 %			2.75 %			

(1) For presentation in this table, average balances and the corresponding average yields for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.
(2) Includes owner occupied commercial real estate loans.
(3) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans and leases, and deferred loan fees.
(4) Total costs of deposits (including interest bearing and non-interest-bearing) were 0.89% and 1.76% for the years ended December 31, 2020 and 2019, respectively.
(5) Non-GAAP tax-equivalent basis, using an estimated marginal tax rate of 26% for both the year ended December 31, 2020 and 2019, presented to approximate interest income as a taxable asset. Management uses non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Please refer to the reconciliation schedule that follows this table.
(6) Non-GAAP tax-equivalent basis, as described in note (5) for the year ended December 31, 2020 and 2019, excluding net interest income from PPP loans and related borrowings, along with the related PPP loan balances and PPP fees receivable from interest-earning assets. Management uses non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Please refer to the reconciliation schedule that follows this table.

Net interest income increased $126.4 million for the year ended December 31, 2020 compared to the year ended December 31, 2019 as average interest-earning assets increased by $4.8 billion primarily related to PPP loan originations, increases in installment loans, commercial loans to mortgage companies, commercial and industrial loans, investment securities, and interest earning deposits, partially offset by decreases in multi-family loans and residential mortgages. The overall average loans and leases receivable balance fluctuations were the result of Customers' strategic efforts to reduce the lower-yielding loans in the multi-family portfolio and replace them with higher-yielding commercial and industrial and installment loans.

The increase in average interest-earning assets during the year ended December 31, 2020 compared to the year ended December 31, 2019 was also offset partially by a 4 basis point decline in NIM to 2.71% for the year ended December 31, 2020, from 2.75% for the year ended December 31, 2019, resulting from the Federal Reserve interest rate cuts of 225 basis points beginning in August 2019 and the shift in the mix of interest-earning assets drove a 94 basis point decline in the yield on interest-earnings assets and an 117 basis point decline in the cost of interest-bearing liabilities for the year ended December 31, 2020. The largest shift in the mix of interest-earnings assets and interest-bearing liabilities was the origination of $4.6 billion ($3.1 billion average balance) in PPP loans yielding 2.10% and related PPPLF borrowings of $4.4 billion ($2.5 billion average balance) costing 0.35%. Customers' total cost of deposits, including interest-bearing and non-interest bearing) were 0.89% and 1.76% for the years ended December 31, 2020 and 2019, respectively.

Customers’ net interest margin tables contain non-GAAP financial measures which include net interest margin tax equivalent and net interest margin tax equivalent, excluding PPP loans. Management uses these non-GAAP measures to present the current period presentation to historical periods in prior filings. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

A reconciliation of net interest margin tax equivalent and net interest margin tax equivalent, excluding PPP loans for the years ended December 31, 2020 and 2019 are set forth below.

	For the Years Ended December 31,	
(dollars in thousands)	2020	2019
Net interest income (GAAP)	$ 403,688	$ 277,310
Tax-equivalent adjustment	874	735
Net interest income tax equivalent (Non-GAAP)	404,562	278,045
Loans receivable, PPP net interest income	(54,583)	—
Net interest income tax equivalent, excluding PPP loans (Non-GAAP)	$ 349,979	$ 278,045
Average total interest-earning assets (GAAP)	$ 14,933,317	$ 10,123,708
Average PPP loans	(3,121,157)	—
Adjusted average total interest-earning assets (Non-GAAP)	$ 11,812,160	$ 10,123,708
Net interest margin (GAAP)	2.70 %	2.74 %
Net interest margin tax equivalent (Non-GAAP)	2.71 %	2.75 %
Net interest margin tax equivalent, excluding PPP loans (Non-GAAP)	2.96 %	2.75 %

PROVISION FOR CREDIT LOSSES

For more information about the provision and Customers' ACL methodology and loss experience, see Critical Accounting Policies and Financial Condition - Loan and Leases, Credit Risk, and Asset Quality herein and NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION and NOTE 7 - LOANS AND LEASES RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES to Customers' audited financial statements.

Customers maintains an ACL to cover current expected credit losses as of the balance sheet date on loans and leases held for investment that are not reported at their fair value on a recurring basis. The ACL is increased through periodic provisions for credit losses on loans and leases that are charged as an expense on the consolidated statements of income and is reduced by charge-offs, net of recoveries. The loan and lease portfolio is reviewed quarterly to evaluate the performance of the portfolio and the adequacy of the ACL. The ACL is estimated as of the end of each quarter and compared to the balance recorded in the general ledger, net of charge-offs and recoveries. The allowance is adjusted to the estimated ACL balance with a corresponding charge (or debit) to the provision for credit losses on loans and leases.

The provision for credit losses is a charge to earnings to maintain the ACL at a level consistent with management's assessment of expected lifetime losses in the loan and lease portfolio at the balance sheet date. Customers recorded $62.8 million and a credit of $1.1 million of provision for credit losses for loans and leases and lending-related commitments, respectively, for the year ended December 31, 2020 utilizing the CECL methodology. The $38.5 million increase in the provision for credit losses for the year ended December 31, 2020 compared to the year ended December 31, 2019 reflects Customers' adoption of CECL, the impact of reserve build for the COVID-19 pandemic and the portfolio growth. Customers adopted ASC 326 on January 1, 2020. Upon adoption, the ACL for loans and leases and lending-related unfunded commitments increased by $79.8 million and $3.4 million, respectively, with the after-tax cumulative effect recorded to retained earnings.

Net charge-offs for the year ended December 31, 2020 were $54.8 million, or 41 basis points of average total loans and leases, compared to $7.8 million, or 8 basis points of average total loans and leases for the year ended December 31, 2019. The increase in net charge-offs primarily relate to the partial charge-offs of two commercial real estate collateral dependent loans and charge-offs in consumer installment loans. The two commercial real estate collateral dependent loans were sold in August 2020 and January 2021.

NON-INTEREST INCOME

The table below presents the components of non-interest income for the years ended December 31, 2020 and 2019.

	For the Years Ended December 31,			
(dollars in thousands)	2020	2019	Change	% Change
Interchange and card revenue	$ 21,039	$ 28,941	$ (7,902)	(27.3)%
Deposit fees	13,835	12,815	1,020	8.0 %
Commercial lease income	18,139	12,051	6,088	50.5 %
Bank-owned life insurance	7,009	7,272	(263)	(3.6)%
Mortgage warehouse transactional fees	11,535	7,128	4,407	61.8 %
Gain (loss) on sale of SBA and other loans	2,009	2,770	(761)	(27.5)%
Mortgage banking income	1,693	66	1,627	2,465.2 %
Loss upon acquisition of interest-only GNMA securities	—	(7,476)	7,476	(100.0)%
Gain (loss) on sale of investment securities	20,078	1,001	19,077	1,905.8 %
Unrealized gain (loss) on investment securities	1,447	1,299	148	11.4 %
Other	4,950	15,071	(10,121)	(67.2)%
Total non-interest income	$ 101,734	$ 80,938	$ 20,796	25.7 %

Interchange and card revenue

The $7.9 million decrease in interchange and card revenue for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from Customers becoming subject to the Federal Reserve's regulation limiting interchange fees for banks over $10 billion in assets beginning on July 1, 2020. The interchange and card revenue is expected to decrease in 2021 as a result of the divestiture of BMT to MFAC on January 4, 2021.

Deposit fees

The $1.0 million increase in deposit fees for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from an increase in service charges on certain deposit accounts relating to a change in the fee structure at the BankMobile segment, partially offset by lower activity volume. The deposit fees are expected to decrease significantly in 2021 as a result of the divestiture of BMT to MFAC on January 4, 2021.

Commercial lease income

Commercial lease income represents income earned on commercial operating leases generated by Customers' Equipment Finance Group in which Customers is the lessor. The $6.1 million increase in commercial lease income for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from the continued growth of Customers' equipment finance business.

Mortgage warehouse transactional fees

The $4.4 million increase in mortgage warehouse transactional fees for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from an increase in refinancing activity driven by the decline in market interest rates during the year ended December 31, 2020 compared to the year ended December 31, 2019. There can be no assurance that the refinancing activity will remain elevated for Customers to earn mortgage warehouse transactional fees in 2021 as compared to 2020.

Gain (loss) on sale of SBA and other loans

The $0.8 million decrease in gain (loss) on sale of SBA and other loans for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from a strategic initiative to retain SBA loans on our balance sheet for the first nine months of 2019. Customers resumed selling these loans in fourth quarter 2019 that generated higher gains as compared to the year ended December 31, 2020.

Mortgage banking income

The $1.6 million increase in mortgage banking income for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from an increase in unrealized gains on derivatives and gains on sales of mortgage servicing rights during the year ended December 31, 2020 compared to the year ended December 31, 2019.

Loss on acquisition of interest-only GNMA securities

The $7.5 million decrease in loss realized upon the acquisition of interest-only GNMA securities for the year ended December 31, 2020 compared to the year ended December 31, 2019 resulted from a commercial mortgage warehouse customer that unexpectedly ceased operations in second quarter 2019. Customers took possession of the interest-only GNMA securities that served as the primary collateral for loans made to this mortgage warehouse customer. The shortfall in the fair value of the interest-only GNMA securities upon acquisition resulted in a write-down of $7.5 million in 2019. Customers views this as an isolated event that is not indicative of the overall credit quality of the mortgage warehouse portfolio. There are no other loans in the mortgage warehouse portfolio secured by interest-only securities. These securities were sold for $15.4 million with a realized gain of $1.0 million in 2020.

Gain (loss) on sale of investment securities

The $19.1 million increase in gain (loss) on sale of investment securities for the year ended December 31, 2020 compared to the year ended December 31, 2019 resulted from a $20.1 million gain realized primarily from the sale of $162.7 million of agency-guaranteed mortgage-backed securities, $110.7 million in corporate notes, and $80.0 million in government agency securities for the year ended December 31, 2020, compared to a $1.0 million gain realized from the sale of $95 million of corporate notes for the year ended December 31, 2019. There can be no assurance that Customers will realize gains on the sale of investment securities in 2021, given significant uncertainty in the capital markets and Customers' investment strategy.

Other non-interest income

The $10.1 million decrease in other non-interest income for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from a net negative derivative valuation adjustment of $6.4 million, due to changes in market interest rates and a negative credit valuation adjustment from an interest rate swap associated with a non-performing borrower, a market value adjustment loss on two commercial real estate collateral dependent loans held for sale of $2.6 million in 2020, and a decrease in premiums from derivatives of $1.6 million.

NON-INTEREST EXPENSE

The table below presents the components of non-interest expense for the years ended December 31, 2020 and 2019.

(dollars in thousands)	For the Years Ended December 31, 2020	2019	Change	% Change
Salaries and employee benefits	$ 126,008	$ 107,632	$ 18,376	17.1 %
Technology, communication and bank operations	52,865	43,481	9,384	21.6 %
Professional services	26,965	25,109	1,856	7.4 %
Occupancy	12,877	13,098	(221)	(1.7)%
Commercial lease depreciation	14,715	9,473	5,242	55.3 %
FDIC assessments, non-income taxes, and regulatory fees	11,661	5,861	5,800	99.0 %
Provision for operating losses	5,281	9,638	(4,357)	(45.2)%
Advertising and promotion	2,223	4,044	(1,821)	(45.0)%
Merger and acquisition related expenses	2,106	100	2,006	2,006.0 %
Loan workout	3,143	1,687	1,456	86.3 %
Other real estate owned	79	398	(319)	(80.2)%
Other	8,767	11,380	(2,613)	(23.0)%
Total non-interest expense	$ 266,690	$ 231,901	$ 34,789	15.0 %

Salaries and employee benefits

The $18.4 million increase in salaries and employee benefits for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from an increase in average full-time equivalent team members needed for future growth, annual merit increases, and an increase in incentive accruals tied to Customers' overall performance.

Technology, communications, and bank operations

The $9.4 million increase in technology, communications, and bank operations expense for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from the continued investment in the white label relationship and digital transformation efforts.

Professional services

The $1.9 million increase in professional services for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from consulting services associated with supporting the white label relationship and digital transformation efforts.

Commercial lease depreciation

The $5.2 million increase in commercial lease depreciation for the year ended December 31, 2020 compared to the year ended December 31, 2019 resulted from the continued growth of the operating lease arrangements originated by Customers' Equipment Finance Group in which Customers is the lessor.

FDIC assessments, non-income taxes, and regulatory fees

The $5.8 million increase in FDIC assessments, non-income taxes, and regulatory fees for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from an increase in FDIC assessment rates resulting from management's decision to grow the balance sheet beyond $10 billion in assets, as higher premiums became applicable, and the temporary utilization of brokered deposits to fund PPP loans.

Provision for operating losses

The $4.4 million decrease in provision for operating losses for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from an internet-based organized crime ring that was identified during 2019 and initiatives by management to reduce fraud and theft-based losses during the year ended December 31, 2020.

Advertising and promotion

The $1.8 million decrease in advertising and promotion for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from a reduction in the promotion of Customers' digital banking products and service offerings available through our white label partnership.

Merger and acquisition related expenses

The $2.0 million increase in merger and acquisition related expenses for the year ended December 31, 2020 compared to the year ended December 31, 2019 resulted from the merger of BankMobile Technologies, Inc. and Megalith Financial Acquisition Corp.

Loan workout

The $1.5 million increase in loan workout for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from the workout of two commercial relationships.

Other non-interest expenses

The $2.6 million decrease in other non-interest expenses for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from an increase in operating cost reimbursements from Customers' white label relationship, partially offset by a legal contingency accrual of $1.0 million related to the settlement of the previously disclosed matter with the ED.

On January 4, 2021, Customers completed the divestiture of BMT through a merger with MFAC. Accordingly, Customers' non-interest expenses, such as salaries and employee benefits, technology, professional services, merger and acquisition related expenses and other non-interest expenses, including reimbursements from the white label relationship associated with BMT are expected to decrease in 2021 compared to 2020. In connection with the divestiture, we have entered into various agreements with BM Technologies, including a transition services agreement, software license agreement, deposit servicing agreement, non-competition agreement and loan agreement for periods ranging from one to ten years. Customers will continue to incur non-interest expenses associated with these agreements with BM Technologies in 2021. Beginning in first quarter 2021, BMT's historical financial results for periods prior to the divestiture will be reflected in Customers' consolidated financial statements as discontinued operations.

INCOME TAXES

The table below presents income tax expense and the effective tax rate for the years ended December 31, 2020 and 2019.

	For the Years Ended December 31,			
(dollars in thousands)	2020	2019	Change	% Change
Income before income tax expense	$ 175,958	$ 102,120	$ 73,838	72.3 %
Income tax expense	43,380	22,793	20,587	90.3 %
Effective tax rate	24.7 %	22.3 %		

The $20.6 million increase in income tax expense for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from an increase in pre-tax income. The increase in the effective tax rate for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily resulted from the dilution of the permanent tax differences and other tax benefits as a result of increased pre-tax income. For the reconciliation of the effective tax rate and the statutory federal tax rate, refer to Note 15 – INCOME TAXES to Customers' audited financial statements.

PREFERRED STOCK DIVIDENDS

Preferred stock dividends were $14.0 million and $14.5 million for the year ended December 31, 2020 and 2019, respectively. There were no changes to the amount of preferred stock outstanding during the years ended December 31, 2020 and 2019. On June 15, 2020, the Series C preferred stock became floating at three-month LIBOR plus 5.30% compared to a fixed rate of 7.00%.

Financial Condition

General

Customers' total assets were $18.4 billion at December 31, 2020. This represented a $6.9 billion increase from total assets of $11.5 billion at December 31, 2019. The increase in total assets was primarily driven by increases of $4.6 billion in loans receivable, PPP, $1.4 billion in loans receivable, mortgage warehouse, at fair value, $614.4 million in investment securities, $480.8 million in cash and cash equivalents, and $256.4 million in loans and leases receivable, partially offset by a decrease of $407.2 million in loans held for sale and an increase in ACL of $87.8 million.

Total liabilities were $17.3 billion at December 31, 2020. This represented a $6.9 billion increase from $10.5 billion at December 31, 2019. The increase in total liabilities primarily resulted from increases in the PPPLF of $4.4 billion and total deposits of $2.7 billion, offset in part by a reduction in federal funds purchased of $288.0 million.

The following table sets forth certain key condensed balance sheet data:

	December 31,			
(dollars in thousands)	2020	2019	Change	% Change
Cash and cash equivalents	$ 693,354	$ 212,505	$ 480,849	226.3 %
Investment securities, at fair value	1,210,285	595,876	614,409	103.1 %
Loans held for sale	79,086	486,328	(407,242)	(83.7)%
Loans receivable, mortgage warehouse, at fair value	3,616,432	2,245,758	1,370,674	61.0 %
Loans receivable, PPP	4,561,365	—	4,561,365	NM
Loans and leases receivable	7,575,368	7,318,988	256,380	3.5 %
Allowance for credit losses on loans and leases	(144,176)	(56,379)	(87,797)	155.7 %
Total assets	18,439,248	11,520,717	6,918,531	60.1 %
Total deposits	11,309,929	8,648,936	2,660,993	30.8 %
Federal funds purchased	250,000	538,000	(288,000)	(53.5)%
FHLB advances	850,000	850,000	—	— %
Other borrowings	124,037	123,630	407	0.3 %
Subordinated debt	181,394	181,115	279	0.2 %
FRB PPP Liquidity Facility	4,415,016	—	4,415,016	NM
Total liabilities	17,322,162	10,467,922	6,854,240	65.5 %
Total shareholders’ equity	1,117,086	1,052,795	64,291	6.1 %
Total liabilities and shareholders’ equity	$ 18,439,248	$ 11,520,717	$ 6,918,531	60.1 %

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and due from banks and interest-earning deposits. Cash and due from banks consists mainly of vault cash and cash items in the process of collection. Cash on hand and due from banks were $78.1 million and $33.1 million at December 31, 2020 and 2019, respectively. The cash on hand and cash due from banks balances vary from day to day, primarily due to fluctuations in customers’ deposits with the Bank.

Interest-earning deposits consist of cash deposited at other banks, primarily the FRB. Interest-earning deposits were $615.3 million and $179.4 million at December 31, 2020 and 2019, respectively. The balance of interest-earning deposits varies from day to day, depending on several factors, such as fluctuations in customers’ deposits with Customers, payment of checks drawn on customers’ accounts and strategic investment decisions made to maximize Customers' net interest income, while effectively managing interest-rate risk and liquidity. The increase in interest-earning deposits since December 31, 2019 primarily resulted from managing liquidity as Customers' total assets have substantially increased since December 31, 2019.

Investment Securities

The investment securities portfolio is an important source of interest income and liquidity. It consists of mortgage-backed securities and collateralized mortgage obligations (guaranteed by an agency of the United States government), U.S. government agency securities, asset-backed securities, collateralized loan obligations, private label collateralized mortgage obligations, state and political subdivision debt securities, corporate notes and marketable equity securities. In addition to generating revenue, the investment portfolio is maintained to manage interest-rate risk, provide liquidity, serve as collateral for other borrowings, and diversify the credit risk of interest-earning assets. The portfolio is structured to optimize net interest income given the changes in the economic environment, liquidity position and balance sheet mix.

At December 31, 2020, investment securities totaled $1.2 billion compared to $595.9 million at December 31, 2019. The increase primarily resulted from the purchases of asset-backed securities, collateralized loan obligations, U.S. government agency securities, agency-guaranteed collateralized mortgage obligations, private label collateralized mortgage obligations, state and political subdivision debt securities, and corporate notes totaling $1.2 billion, partially offset by the sale of $387.8 million of U.S. government agency securities, agency-guaranteed mortgage-backed securities, corporate notes, agency-guaranteed collateralized mortgage obligations, and interest-only GNMA securities and maturities, calls and principal repayments totaling $236.1 million for the year ended December 31, 2020.

The interest-only GNMA securities served as the primary collateral for loans made to one commercial mortgage warehouse customer. These securities are reported at fair value, with fair value changes recorded directly in earnings based on a fair value option election. These securities were sold for $15.4 million with a realized gain of $1.0 million in 2020.

For financial reporting purposes, AFS debt securities are carried at fair value. Unrealized gains and losses on AFS debt securities, other than credit losses, are included in other comprehensive income (loss) and reported as a separate component of shareholders' equity, net of the related tax effect. Changes in the fair value of marketable equity securities and securities reported at fair value based on a fair value option election are recorded in non-interest income in the period in which they occur.

The following table sets forth the amortized cost and fair value of the investment securities at December 31, 2020 and 2019.

	Amortized Cost		Fair Value	
	December 31,		December 31,	
(amounts in thousands)	2020	2019	2020	2019
Available for sale debt securities				
Asset-backed securities	$ 372,640	$ —	$ 377,145	$ —
U.S. government agency securities	20,000	—	$ 20,034	—
Agency-guaranteed mortgage-backed securities	61,178	$ 273,252	63,091	$ 278,321
Agency-guaranteed collateralized mortgage obligations	160,950	—	161,767	—
Collateralized loan obligations	32,367	—	32,367	—
Corporate notes (1)	372,764	284,639	396,744	298,877
Private label collateralized mortgage obligations	136,943	—	136,992	—
State and political subdivision debt securities	17,346	—	18,291	—
Available for sale debt securities	$ 1,174,188	$ 557,891	1,206,431	577,198
Interest-only GNMA securities (2)			—	16,272
Equity securities (3)			3,854	2,406
Total investment securities, at fair value			$ 1,210,285	$ 595,876

(1) At December 31, 2020 and 2019, includes corporate notes issued by other domestic bank holding companies.
(2) Reported at fair value with fair value changes recorded in non-interest income based on a fair value option election.
(3) Includes equity securities issued by a foreign entity.

The following table sets forth information about the maturities and weighted-average yield of the investment securities portfolio. Yields are not reported on a tax-equivalent basis.

	December 31, 2020						
	Amortized Cost						Fair Value
(dollars in thousands)	< 1yr	1 -5 years	5 -10 years	After 10 years	No specific maturity	Total	Total
Investment securities							
Asset-backed securities	$ —	$ —	$ —	$ —	$ 372,640	$ 372,640	$ 377,145
Yield	—	—	—	—	1.18 %	1.18 %	—
U.S. government agency securities	—	—	20,000	—	—	20,000	20,034
Yield	—	—	0.41 %	—	—	0.41 %	—
Agency-guaranteed mortgage-backed securities	—	—	—	—	61,178	61,178	63,091
Yield	—	—	—	—	3.18 %	3.18 %	—
Agency-guaranteed collateralized mortgage obligations	—	—	—	—	160,950	160,950	161,767
Yield	—	—	—	—	0.58 %	0.58 %	—
Collateralized loan obligations	—	—	—	—	32,367	32,367	32,367
Yield	—	—	—	—	1.87 %	1.87 %	—
Corporate notes	—	93,111	275,653	4,000	—	372,764	396,744
Yield	—	4.51 %	4.23 %	4.50 %	—	4.30 %	—
Private label collateralized mortgage obligations	—	—	—	—	136,943	136,943	136,992
Yield	—	—	—	—	3.15 %	3.15 %	—
State and political subdivision debt securities	—	—	—	17,346	—	17,346	18,291
Yield	—	—	—	5.22 %	—	5.22 %	—
Equity securities	—	—	—	—	—	—	3,854
Total	$ —	$ 93,111	$ 295,653	$ 21,346	$ 764,078	$ 1,174,188	$ 1,210,285
Weighted-Average Yield	— %	4.51 %	3.97 %	5.09 %	1.60 %	2.49 %	

The agency-guaranteed mortgage-backed securities and collateralized mortgage obligations in the portfolio were issued by Fannie Mae, Freddie Mac, and Ginnie Mae and contain guarantees for the collection of principal and interest on the underlying mortgages.

LOANS AND LEASES

Existing lending relationships are primarily with small and middle market businesses and individual consumers primarily in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington, D.C.; and Chicago, Illinois. The portfolios of loans to mortgage banking businesses is nationwide. The loan portfolio consists primarily of loans to support mortgage banking companies' funding needs, multi-family/commercial real estate, and commercial and industrial loans. Customers continues to focus on small and middle market business loans to grow its commercial lending efforts, particularly its commercial and industrial loan and lease portfolio and its specialty mortgage lending business. Customers also focuses its lending efforts on local-market mortgage and home equity lending and the origination and purchase of unsecured consumer loans (installment loans), including personal, student loan refinancing, and home improvement loans through arrangements with fintech companies and other market place lenders for both the Customers Bank Business Banking and BankMobile segments nationwide. Following the completion of the divestiture of BMT, BankMobile's loans and serviced deposits and the related net interest income will be combined with Customers' financial condition and the results of operations as a single reportable segment.

Commercial Lending

Customers' commercial lending is divided into five groups: Business Banking, Small and Middle Market Business Banking, Multi-Family and Commercial Real Estate Lending, Mortgage Banking Lending, and Equipment Finance. This grouping is designed to allow for greater resource deployment, higher standards of risk management, strong asset quality, lower interest-rate risk and higher productivity levels.

The commercial lending group focuses primarily on companies with annual revenues ranging from $1 million to $100 million, which typically have credit requirements between $0.5 million and $10 million.

As of December 31, 2020, Customers had $14.2 billion in commercial loans outstanding, totaling approximately 89.8% of its total loan and lease portfolio, which includes loans held for sale, loans receivable, mortgage warehouse, at fair value and PPP loans, compared to commercial loans outstanding of $8.4 billion, comprising approximately 83.8% of its total loan and lease portfolio, at December 31, 2019. Included in the $14.1 billion in commercial loans outstanding as of December 31, 2020 was $4.6 billion of PPP loans. The PPP loans are fully guaranteed by the SBA and earn a fixed interest rate of 1.00%.

The small and middle market business banking platform originates loans, including SBA loans, through the branch network sales force and a team of dedicated relationship managers. The support administration of this platform is centralized including risk management, product management, marketing, performance tracking and overall strategy. Credit and sales training has been established for Customers' sales force, ensuring that it has small business experts in place providing appropriate financial solutions to the small business owners in its communities. The division approach focuses on industries that offer high asset quality and are deposit rich to drive profitability.

Customers' lending to mortgage banking businesses primarily provides financing to mortgage bankers for residential mortgage originations from loan closing until sale in the secondary market. Many providers of liquidity in this segment exited the business in 2009 during a period of market turmoil. Customers saw an opportunity to provide liquidity to this business segment at attractive spreads, generate fee income and attract escrow deposits. The underlying residential loans are taken as collateral for Customers' commercial loans to the mortgage companies. As of December 31, 2020 and 2019, commercial loans to mortgage banking businesses totaled $3.6 billion and $2.2 billion, respectively, and are reported as loans receivable, mortgage warehouse, at fair value on the consolidated balance sheet.

Customers intends to continue to deemphasize its lower-yielding multi-family loan portfolio, and invest in higher-yielding commercial and industrial loans with the multi-family run-off. Customers' multi-family lending group continues to focus on retaining a portfolio of high-quality multi-family loans within Customers' covered markets while cross-selling other products and services. These lending activities primarily target the refinancing of loans with other banks using conservative underwriting standards and provide purchase money for new acquisitions by borrowers. The primary collateral for these loans is a first lien mortgage on the multi-family property, plus an assignment of all leases related to such property. As of December 31, 2020, Customers had multi-family loans of $1.8 billion outstanding, comprising approximately 11.1% of the total loan and lease portfolio, compared to $2.4 billion, or approximately 23.8% of the total loan and lease portfolio, at December 31, 2019.

The Equipment Finance Group offers equipment financing and leasing products and services for a broad range of asset classes. It services vendors, dealers, independent finance companies, bank-owned leasing companies and strategic direct customers in the plastics, packaging, machine tool, construction, transportation and franchise markets. As of December 31, 2020 and 2019, Customers had $288.4 million and $257.9 million, respectively, of equipment finance loans outstanding. As of December 31, 2020 and 2019, Customers had $108.0 million and $89.2 million of equipment finance leases outstanding, respectively. As of December 31, 2020 and 2019, Customers had $102.9 million and $93.6 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of $28.9 million and $14.3 million, respectively.

On March 27, 2020, the CARES Act was signed into law and which created funding for a new product called the PPP. The PPP is administered by the SBA and is intended to assist organizations with payroll related expenses. Customers, directly or through fintech partnerships, had $4.6 billion of PPP loans outstanding as of December 31, 2020, which are fully guaranteed by the SBA and earn a fixed interest rate of 1.00%. The average loan size of the PPP portfolio is approximately $68 thousand.

Consumer Lending

Customers provides unsecured consumer loans, residential mortgage, and home equity loans to customers. The installment loan portfolio consists largely of originated and purchased personal, student loan refinancing and home improvement loans. None of the loans are considered sub-prime at the time of origination. Customers considers sub-prime borrowers to be those with FICO scores below 660. Customers has been selective in the consumer loans it has been purchasing. Home equity lending is offered to solidify customer relationships and grow relationship revenues in the long term. This lending is important in Customers' efforts to grow total relationship revenues for its consumer households. As of December 31, 2020, Customers had $1.6 billion in consumer loans outstanding, or 10.3% of the total loan and lease portfolio, compared to $1.6 billion, or 16.2% of the total loan and lease portfolio, as of December 31, 2019.

Purchases and sales of loans were as follows for the years ended December 31, 2020, 2019 and 2018:

	For the Years Ended December 31,		
(amounts in thousands)	2020	2019	2018
Purchases [(1)]			
Residential real estate	$ 495	$ 105,858	$ 368,402
Installment [(2)]	269,684	1,058,261	30,066
Total	$ 270,179	$ 1,164,119	$ 398,468
Sales [(3)]			
Multi-family	$ —	$ —	$ 54,638
Commercial and industrial [(4)]	6,940	22,267	32,263
Commercial real estate owner occupied [(4)]	—	16,320	20,218
Commercial real estate non-owner occupied	17,600	—	—
Residential real estate	—	230,285	—
Installment	1,822	—	—
Total	$ 26,362	$ 268,872	$ 107,119

(1) Amounts reported represent the unpaid principal balance at time of purchase. The purchase price was 100.3%, 100.3% and 99.9% of loans outstanding for the years ended December 31, 2020, 2019 and 2018, respectively.
(2) Installment loan purchases for the years ended December 31, 2020 and 2019, consist of third-party originated unsecured consumer loans. None of the loans are considered sub-prime at the time of origination. Customers considers sub-prime borrowers to be those with FICO scores below 660.
(3) Amounts reported in the above table are the unpaid principal balance at time of sale. For the years ended December 31, 2020, 2019 and 2018, loan sales resulted in net gains of $2.0 million, $2.8 million and $3.3 million, respectively.

Loans Held for Sale

The composition of loans held for sale was as follows:

	December 31,				
(amounts in thousands)	2020	2019	2018	2017	2016
Commercial loans:					
Multi-family loans at lower of cost or fair value	$ —	$ 482,873	$ —	$ 144,191	$ —
Commercial and industrial loan, at lower of cost or fair value	55,683	—	—	—	—
Commercial real estate non-owner occupied loan, at lower of cost or fair value	17,251	—	—	—	—
Total commercial loans held for sale	72,934	482,873	—	144,191	—
Consumer loans:					
Home equity conversion mortgages, at lower of cost or fair value	643	1,325	—	—	—
Residential mortgage loans, at fair value	5,509	2,130	1,507	1,886	695
Total consumer loans held for sale	6,152	3,455	1,507	1,886	695
Loans held for sale	$ 79,086	$ 486,328	$ 1,507	$ 146,077	$ 695

At December 31, 2020, loans held for sale totaled $79.1 million, or 0.50% of the total loan and lease portfolio, and $486.3 million, or 4.84% of the total loan and lease portfolio, at December 31, 2019. During 2020, Customers transferred $401.1 million of multi-family loans from loans held for sale to loans receivable (held for investment) because it no longer had the intent to sell these loans. Customers transferred these loans at their carrying value, which approximated their fair value at the time of transfer.

Loans held for sale are carried on the balance sheet at either fair value (due to the election of the fair value option) or at the lower of cost or fair value. An ACL is not recorded on loans that are classified as held for sale.

Total Loans and Leases Receivable

The composition of total loans and leases receivable (excluding loans held for sale) was as follows:

	December 31,				
(amounts in thousands)	2020	2019	2018	2017	2016
Loans receivable, mortgage warehouse, at fair value	$ 3,616,432	$ 2,245,758	$ 1,405,420	$ 1,793,408	$ 2,116,815
Loans receivable, PPP	4,561,365	—	—	—	—
Loans and leases receivable:					
Commercial:					
Multi-family	1,761,301	1,907,331	3,281,328	3,497,371	3,210,378
Commercial and industrial [(1)]	2,289,441	1,891,152	1,374,655	1,149,744	988,556
Commercial real estate owner occupied	572,338	551,948	577,050	484,651	393,789
Commercial real estate non-owner occupied	1,196,564	1,222,772	1,124,955	1,218,095	1,192,417
Construction	140,905	117,617	56,195	85,024	64,542
Total commercial loans and leases receivable	5,960,549	5,690,820	6,414,183	6,434,885	5,849,682
Consumer:					
Residential real estate	317,170	382,634	573,598	238,266	198,181
Manufactured housing	62,243	71,359	80,861	91,546	103,273
Installment	1,235,406	1,174,175	69,432	3,561	3,501
Total consumer loans receivable	1,614,819	1,628,168	723,891	333,373	304,955
Loans and leases receivable	7,575,368	7,318,988	7,138,074	6,768,258	6,154,637
Allowance for credit losses	(144,176)	(56,379)	(39,972)	(38,015)	(37,315)
Total loans and leases receivable, net of allowance for credit losses [(2)]	$ 15,608,989	$ 9,508,367	$ 8,503,522	$ 8,523,651	$ 8,234,137

(1) Includes direct finance leases of $108.0 million, $89.2 million, $54.5 million, $26.6 million, and $10.3 million at December 31, 2020, 2019, 2018, 2017 and 2016, respectively.
(2) Includes deferred (fees) costs and unamortized (discounts) premiums, net of $(54.6) million, $2.1 million, $(424) thousand, $83 thousand, and $76 thousand at December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

Loans receivable, PPP

On March 27, 2020, the CARES Act was signed into law and which created funding for a new product called the PPP. The PPP is administered by the SBA and is intended to assist organizations with payroll related expenses. Customers had $4.6 billion of PPP loans outstanding as of December 31, 2020, which are fully guaranteed by the SBA and earn a fixed interest rate of 1.00%. Customers recognized interest income, including origination fees, of $65.5 million for the year ended December 31, 2020.

Loans receivable, mortgage warehouse, at fair value

The mortgage warehouse product line primarily provides financing to mortgage companies nationwide from the time of origination of the underlying mortgage loans until the mortgage loans are sold into the secondary market. As a mortgage warehouse lender, Customers provides a form of financing to mortgage bankers by purchasing for resale the underlying residential mortgages on a short-term basis under a master repurchase agreement. These loans are reported as loans receivable, mortgage warehouse, at fair value on the consolidated balance sheets. Because these loans are reported at their fair value, they do not have an ACL and are therefore excluded from ACL related disclosures. At December 31, 2020, all of Customers' commercial mortgage warehouse loans were current in terms of payment.

Customers is subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and default of the mortgage banker or of the underlying residential borrower, any of which could result in credit losses. Customers' mortgage warehouse lending team members monitor these mortgage originators by obtaining financial and other relevant information to reduce these risks during the lending period. Loans receivable, mortgage warehouse, at fair value totaled $3.6 billion and $2.2 billion at December 31, 2020 and 2019, respectively.

Loans and leases receivable

Loans and leases receivable (excluding loans held for sale, loans receivable, mortgage warehouse, at fair value, and loans receivable, PPP), net of the ACL, increased by $168 million to $7.4 billion at December 31, 2020, from $7.3 billion at December 31, 2019. The increase in loans and leases receivable, net of the ACL, was attributable to higher balances in the commercial and industrial, owner occupied commercial real estate, construction and consumer installment loan portfolios, with each portfolio increasing by $398 million, $20 million, $23 million, and $61 million, respectively, from December 31, 2019. These increases were partially offset by $88 million increase in ACL, as further described below, and reductions in the multi-family, non-owner occupied commercial real estate and residential real estate loan portfolios, with each portfolio decreasing by $146 million, $26 million and $65 million, respectively, from December 31, 2019. The overall loans and leases receivable fluctuations were the result of Customers' strategic efforts to reduce the lower-yielding loans in the multi-family portfolio and replace them with higher-yielding commercial and industrial and installment loans.

The following table presents Customers' loans receivable (excluding loans held for sale, loans receivable, at fair value, and loans receivable, PPP) as of December 31, 2020 based on the remaining term to contractual maturity, and presents the amount of those loans with predetermined fixed rates and floating or adjustable rates:

(amounts in thousands)	Within one year	After one but within five years	After five years	Total
Commercial loans:				
Multi-family	$ 303,778	$ 417,434	$ 1,040,089	$ 1,761,301
Commercial and industrial	393,020	1,536,446	359,975	2,289,441
Commercial real estate owner occupied	35,957	348,827	187,554	572,338
Commercial real estate non-owner occupied	281,574	639,181	275,809	1,196,564
Construction	94,019	41,932	4,954	140,905
Total commercial loans	$ 1,108,348	$ 2,983,820	$ 1,868,381	$ 5,960,549
Amount of such loans with:				
Predetermined rates	$ 514,264	$ 1,113,504	$ 279,921	$ 1,907,689
Floating or adjustable rates	594,084	1,870,316	1,588,460	4,052,860
Total commercial loans	$ 1,108,348	$ 2,983,820	$ 1,868,381	$ 5,960,549
Consumer Loans:				
Residential real estate	$ 40,268	$ 3,629	$ 273,273	$ 317,170
Manufactured housing	500	6,463	55,280	$ 62,243
Installment	12,850	1,029,917	192,639	$ 1,235,406
Total consumer loans	$ 53,618	$ 1,040,009	$ 521,192	$ 1,614,819
Amount of such loans with:				
Predetermined rates	$ 15,214	$ 1,040,009	$ 409,881	$ 1,465,104
Floating or adjustable rates	38,404	—	111,311	$ 149,715
Total consumer loans	$ 53,618	$ 1,040,009	$ 521,192	$ 1,614,819

Credit Risk

Customers manages credit risk by maintaining diversification in its loan and lease portfolio, establishing and enforcing prudent underwriting standards and collection efforts and continuous and periodic loan and lease classification reviews. Management also considers the effect of credit risk on financial performance by reviewing quarterly and maintaining an adequate ACL. Credit losses are charged-off when they are identified, and provisions are added for current expected credit losses, to the ACL at least quarterly. The ACL is estimated at least quarterly.

The provision for credit losses on loans and leases was $62.8 million and $24.2 million for the years ended December 31, 2020 and 2019, respectively. The ACL maintained for loans and leases receivable (excluding loans held for sale and loans receivable, mortgage warehouse, at fair value and PPP loans) was $144.2 million, or 1.90% of loans and leases receivable at December 31, 2020, and $56.4 million, or 0.77% of loans receivable, at December 31, 2019. Excluding loans receivable, PPP from total loans and leases receivable is a non-GAAP measure. Management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Please refer to the reconciliation schedule below. Net charge-offs were $54.8 million for the year ended December 31, 2020, an increase of $47.0 million compared to $7.8 million for the year ending December 31, 2019. The increase in the ACL resulted primarily from the impact of reserve build for the COVID-19 pandemic, mostly attributable to the commercial real estate non-owner occupied and installment portfolios, and portfolio growth. Commercial real estate non-owner occupied charge-offs were attributable to the partial charge-off of two collateral dependent loans, which are not indicative of the overall commercial real estate portfolio. Installment charge-offs were attributable to originated and purchased unsecured consumer loans through arrangements with fintech companies and other market place lenders.

A reconciliation of the coverage of ACL for loans and leases held for investment to the ACL for loans and leases held for investment, excluding PPP loans as of December 31, 2020 and 2019 are set forth below.

	December 31,	
(dollars in thousands)	**2020**	**2019**
Loans and leases receivable (GAAP)	$ 12,136,733	$ 7,318,988
Less: Loans receivable, PPP	4,561,365	—
Loans and leases held for investment, excluding PPP (Non-GAAP)	$ 7,575,368	$ 7,318,988
ACL for loans and leases (GAAP)	$ 144,176	$ 56,379
Coverage of ACL for loans and leases held for investment, excluding PPP (Non-GAAP)	1.90 %	0.77 %

The table below presents Customers' ACL for the periods indicated.

	For the Years Ended December 31,				
(amounts in thousands)	2020	2019	2018	2017	2016
Balance at the beginning of the period	$ 56,379	$ 39,972	$ 38,015	$ 37,315	$ 35,647
Cumulative effect of change in accounting principle	79,829	—	—	—	—
Loan and lease charge-offs (1)					
Multi-family	—	541	—	—	—
Commercial and industrial	3,158	532	1,722	4,157	2,920
Commercial real estate owner occupied	78	119	747	731	27
Commercial real estate non-owner occupied	25,779	—	—	486	140
Residential real estate	60	297	466	415	493
Installment	32,661	8,101	1,822	1,338	825
Total Charge-offs	61,736	9,590	4,757	7,127	4,405
Loan and lease recoveries (1)					
Multi-family	—	7	—	—	—
Commercial and industrial	3,019	1,050	403	676	381
Commercial real estate owner occupied	28	236	326	9	—
Commercial real estate non-owner occupied	1,293	—	5	—	130
Construction	128	136	241	164	1,854
Residential real estate	86	27	76	72	367
Installment	2,376	314	21	138	11
Total Recoveries	6,930	1,770	1,072	1,059	2,743
Total net charge-offs	54,806	7,820	3,685	6,068	1,662
Provision for credit losses on loans and leases (2)	62,774	24,227	5,642	6,768	3,330
Balance at the end of the period	$ 144,176	$ 56,379	$ 39,972	$ 38,015	$ 37,315

(1) Charge-offs and recoveries on PCD and PCI loans that are accounted for in pools are recognized on a net basis when the pool matures.
(2) The provision amounts exclude the benefit/(cost) of FDIC loss sharing arrangements of $0.3 million for the year ended December 31, 2016.

The ACL is based on a quarterly evaluation of the loan and lease portfolio and is maintained at a level that management considers adequate to absorb expected losses as of the balance sheet date. All commercial loans, with the exception of PPP loans and commercial mortgage warehouse loans, which are reported at fair value, are assigned internal credit-risk ratings, based upon an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans and leases are monitored regularly by the responsible officer, and the risk ratings are adjusted when considered appropriate. The risk assessment allows management to identify problem loans and leases timely. Management considers a variety of factors and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate an appropriate level of ACL. Refer to Critical Accounting Policies herein and NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements for Customers' adoption of CECL and management's methodology for estimating the ACL.

Approximately 65.6% of Customers' commercial real estate, commercial and residential construction, consumer residential and commercial and industrial loan types have real estate as collateral (collectively, "the real estate portfolio"), primarily in the form of a first lien position. Current appraisals providing current value estimates of the property are received when Customers' credit group determines that the facts and circumstances have significantly changed since the date of the last appraisal, including that real estate values have deteriorated. The credit committee and loan officers review loans that are 15 or more days delinquent and all non-accrual loans on a periodic basis. In addition, loans where the loan officers have identified a "borrower of interest" are discussed to determine if additional analysis is necessary to apply the risk-rating criteria properly. The risk ratings for the real estate loan portfolio are determined based upon the current information available, including but not limited to discussions with the borrower, updated financial information, economic conditions within the geographic area and other factors that may affect the cash flow of the loan. If a loan is individually evaluated for impairment, the collateral value or discounted cash flow analysis is generally used to determine the estimated fair value of the underlying collateral, net of estimated selling costs, and compared to the outstanding loan balance to determine the amount of reserve necessary, if any. Appraisals used in this evaluation process are typically less than two years aged. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental financial data to estimate the fair value of the loan, net of estimated selling costs, and compared to the outstanding loan balance to estimate the required reserve.

These impairment measurements are inherently subjective as they require material estimates, including, among others, estimates of property values in appraisals, the amounts and timing of expected future cash flows on individual loans, and general considerations for historical loss experience, economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios, all of which require judgment and may be susceptible to significant change over time and as a result of changing economic conditions or other factors. Pursuant to ASC 326, individually assessed loans, consisting primarily of non-accrual and restructured loans, are considered in the methodology for determining the ACL. Individually assessed loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral (less estimated costs to sell) if principal repayment is expected to come from the sale or operation of such collateral. Shortfalls in the underlying collateral value for loans or leases determined to be collateral dependent are charged off immediately. Subsequent to an appraisal or other fair value estimate, management will assess whether there was a further decline in the value of the collateral based on changes in market conditions or property use that would require additional impairment to be recorded to reflect the particular situation, thereby increasing the ACL on loans and leases.

The following table shows the ACL by various portfolios as of December 31, 2020, 2019, 2018, 2017 and 2016:

	December 31,									
	2020		2019		2018		2017		2016	
(amounts in thousands)	ACL	Percent of loans in each category to loans and leases receivable	ALLL	Percent of loans in each category to loans and leases receivable	ALLL	Percent of loans in each category to loans and leases receivable	ALLL	Percent of loans in each category to loans and leases receivable	ALLL	Percent of loans in each category to loans and leases receivable
Multi-family	$ 12,620	23.3 %	$ 6,157	26.1 %	$ 11,462	46.0 %	$ 12,168	51.7 %	$ 11,602	52.2 %
Commercial and industrial	12,239	30.2 %	15,556	26.0 %	12,145	19.2 %	10,918	17.0 %	11,050	16.1 %
Commercial real estate owner occupied	9,512	7.5 %	2,235	7.4 %	3,320	8.1 %	3,232	7.1 %	2,183	6.4 %
Commercial real estate non-owner occupied	19,452	15.8 %	6,243	16.7 %	6,093	15.8 %	7,437	18.0 %	7,894	19.4 %
Construction	5,871	1.9 %	1,262	1.6 %	624	0.8 %	979	1.3 %	840	1.0 %
Total Commercial Loans and Leases	59,694	78.7 %	31,453	77.8 %	33,644	89.9 %	34,734	95.1 %	33,569	95.1 %
Residential real estate	3,977	4.2 %	3,218	5.1 %	3,654	8.0 %	2,929	3.5 %	3,342	3.1 %
Manufactured housing	5,190	0.8 %	1,060	1.1 %	145	1.1 %	180	1.3 %	286	1.7 %
Installment	75,315	16.3 %	20,648	16.0 %	2,529	1.0 %	172	0.1 %	118	0.1 %
Total Consumer Loans	84,482	21.3 %	24,926	22.2 %	6,328	10.1 %	3,281	4.9 %	3,746	4.9 %
Loans and Leases Receivable	$ 144,176	100.0 %	$ 56,379	100.0 %	$ 39,972	100.0 %	$ 38,015	100.0 %	$ 37,315	100.0 %

Asset Quality

Customers segments the loan and lease receivables by product or other characteristic generally defining a shared characteristic with other loans or leases in the same group. Charge-offs from originated and acquired loans and leases are absorbed by the ACL. The CARES Act, as amended by CAA, and certain regulatory agencies recently issued guidance stating certain loan modifications to borrowers experiencing financial distress as a result of the economic impacts created by COVID-19 may not be required to be treated as TDRs under U.S. GAAP. For COVID-19 related loan modifications which met the loan modification criteria under either the CARES Act, as amended, or the criteria specified by the regulatory agencies, Customers elected to suspend TDR accounting for such loan modifications. At December 31, 2020, commercial and consumer deferments related to COVID-19 were $202.1 million and $16.4 million, respectively. The schedule that follows includes both loans held for sale and loans held for investment. As of December 31, 2020, Customers had $19.3 million of pending commercial loan deferment requests.

Asset Quality at December 31, 2020

(dollars in thousands)	Total loans and leases	Current	30-89 Days past due	90 Days or more past due and accruing	Non-accrual/NPL (a)	OREO and repossessed assets(b)	NPA (a)+(b)	NPL to loan and lease type (%)	NPA to loans and leases + OREO and repossessed assets (%)
Loan and Lease Type									
Multi-family	$ 1,761,301	$ 1,736,545	$ 3,027	$ —	$ 21,728	$ —	$ 21,728	1.23 %	1.23 %
Commercial and industrial (1)	2,289,441	2,278,730	2,259	—	8,453	276	8,729	0.37 %	0.38 %
Commercial real estate owner occupied	572,338	566,739	2,188	—	3,411	—	3,411	0.60 %	0.60 %
Commercial real estate non-owner occupied	1,196,564	1,194,148	60	—	2,356	—	2,356	0.20 %	0.20 %
Construction	140,905	140,905	—	—	—	—	—	— %	— %
Total commercial loans and leases receivable	5,960,549	5,917,067	7,534	—	35,948	276	36,224	0.60 %	0.61 %
Residential	317,170	299,801	7,458	—	9,911	35	9,946	3.12 %	3.14 %
Manufactured housing	62,243	55,133	2,191	1,951	2,969	356	3,325	4.77 %	5.31 %
Installment	1,235,406	1,222,603	9,592	—	3,211	—	3,211	0.26 %	0.26 %
Total consumer loans receivable	1,614,819	1,577,537	19,241	1,951	16,091	391	16,482	1.00 %	1.02 %
Loans and leases receivable (1)	7,575,368	7,494,604	26,775	1,951	52,039	667	52,706	0.69 %	0.70 %
Loans receivable, PPP	4,561,365	4,561,365	—	—	—	—	—	— %	— %
Loans receivable, mortgage warehouse, at fair value	3,616,432	3,616,432	—	—	—	—	—	— %	— %
Total loans held for sale	79,086	59,600	1,017	—	18,469	—	18,469	23.35 %	23.35 %
Total portfolio	$ 15,832,251	$ 15,732,001	$ 27,792	$ 1,951	$ 70,508	$ 667	$ 71,175	0.45 %	0.45 %

(1) Excluding loans receivable, PPP from total loans and leases receivable is a non-GAAP measure. Management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Please refer to the reconciliation schedules that follow this table.

Asset Quality at December 31, 2020 (continued)

(dollars in thousands)	Total loans and leases	Non-accrual/NPL	ACL	Cash reserve	Total credit reserves	Reserves to loans and leases (%)	Reserves to NPLs (%)
Loan and Lease Type							
Multi-family	$ 1,761,301	$ 21,728	$ 12,620	$ —	$ 12,620	0.72 %	58.08 %
Commercial & industrial	2,289,441	8,453	12,239	—	12,239	0.53 %	144.79 %
Commercial real estate owner occupied	572,338	3,411	9,512	—	9,512	1.66 %	278.86 %
Commercial real estate non-owner occupied	1,196,564	2,356	19,452	—	19,452	1.63 %	825.64 %
Construction	140,905	—	5,871	—	5,871	4.17 %	— %
Total commercial loans and leases receivable	5,960,549	35,948	59,694	—	59,694	1.00 %	166.06 %
Residential	317,170	9,911	3,977	—	3,977	1.25 %	40.13 %
Manufactured housing	62,243	2,969	5,189	—	5,189	8.34 %	174.77 %
Installment	1,235,406	3,211	75,316	—	75,316	6.10 %	2345.56 %
Total consumer loans receivable	1,614,819	16,091	84,482	—	84,482	5.23 %	525.03 %
Loans and leases receivable (1)	7,575,368	52,039	144,176	—	144,176	1.90 %	277.05 %
Loans receivable, PPP	4,561,365	—	—	—	—	— %	— %
Loans receivable, mortgage warehouse, at fair value	3,616,432	—	—	—	—	— %	— %
Total loans held for sale	79,086	18,469	—	—	—	— %	— %
Total portfolio	$ 15,832,251	$ 70,508	$ 144,176	$ —	$ 144,176	0.91 %	204.48 %

(1) Excluding loans receivable, PPP from total loans and leases receivable is a non-GAAP measure. Management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Please refer to the reconciliation schedules that follow this table.

Customers' asset quality table contains non-GAAP financial measures which exclude loans receivable, PPP from their calculations. Management uses these non-GAAP measures to present the current period presentation to historical periods in prior filings. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

A reconciliation of loans and leases receivable, excluding loans receivable, PPP and other related amounts, at December 31, 2020, are set forth below.

(dollars in thousands)	Total Loans and Leases	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Non-accrual/NPL (a)	OREO and repossessed assets (b)	NPA (a)+(b)	NPL to Loan and Lease Type (%)	NPA to Loans and Leases + OREO (%)
Loans and leases receivable (GAAP)	$ 12,136,733	$ 12,055,969	$ 26,775	$ 1,951	$ 52,039	$ 667	$ 52,706	0.43 %	0.43 %
Less: Loans receivable, PPP	4,561,365	4,561,365	—	—	—	—	—	— %	— %
Loans receivable, excluding loans receivable, PPP (Non-GAAP)	$ 7,575,368	$ 7,494,604	$ 26,775	$ 1,951	$ 52,039	$ 667	$ 52,706	0.69 %	0.70 %
Add: Loans held for sale	$ —				$ 18,469				
Loans receivable, excluding loans receivable, PPP (Non-GAAP)	$ 7,575,368				$ 70,508			0.93 %	

(dollars in thousands)	Total Loans and Leases	Non-accrual / NPL	ACL	Reserves to Loans and Leases (%)	Reserves to NPLs (%)
Loans and leases receivable (GAAP)	$ 12,136,733	$ 52,039	$ 144,176	1.19 %	277.05 %
Less: Loans receivable, PPP	4,561,365	—	—	— %	— %
Loans receivable, excluding loans receivable, PPP (Non-GAAP)	$ 7,575,368	$ 52,039	$ 144,176	1.90 %	277.05 %

The total loan and lease portfolio was $15.8 billion at December 31, 2020 compared to $10.1 billion at December 31, 2019 and $70.5 million, or 0.45% of loans and leases, were non-performing at December 31, 2020 compared to $21.3 million, or 0.21% of loans and leases, at December 31, 2019. The loan and lease portfolio was supported by an ACL of $144.2 million (204.48% of NPLs and 0.91% of total loans and leases) and $56.5 million (264.67% of NPLs and 0.56% of total loans and leases), at December 31, 2020 and 2019, respectively.

The tables below set forth non-accrual loans, NPAs and asset quality ratios:

	December 31,				
(amounts in thousands)	2020	2019	2018	2017	2016
Loans 90+ days delinquent still accruing [(1)]	$ 1,951	$ 1,794	$ 2,188	$ 2,743	$ 2,813
Non-accrual loans	$ 70,508	$ 21,346	$ 27,494	$ 26,415	$ 17,792
OREO and repossessed assets	667	173	816	1,726	3,108
Total non-performing assets	$ 71,175	$ 21,519	$ 28,310	$ 28,141	$ 20,900

(1) Excludes PCD at December31, 2020 and PCI loans at December 31, 2019, 2018, 2017 and 2016.

	December 31,				
	2020	2019	2018	2017	2016
Non-accrual loans and leases to loans and leases receivable [(1)]	0.69 %	0.27 %	0.39 %	0.39 %	0.29 %
Non-accrual loans to total loans and leases	0.45 %	0.21 %	0.32 %	0.30 %	0.22 %
Non-performing assets to total assets	0.39 %	0.18 %	0.29 %	0.29 %	0.22 %
Non-accrual loans and loans 90+ days delinquent to total assets	0.39 %	0.19 %	0.30 %	0.30 %	0.22 %
Allowance for credit losses on loans and leases to:					
Loans and leases receivable [(1)]	1.90 %	0.77 %	0.56 %	0.56 %	0.61 %
Non-accrual loans	204.48 %	281.60 %	145.38 %	143.91 %	209.73 %

(1) Excludes loans held for sale, loans receivable, mortgage warehouse, at fair value, and loans receivable, PPP. Excluding loans receivable, PPP from total loans and leases receivable is a non-GAAP measure. Management believes the use of these non-GAAP measures provides additional clarity when assessing Customers'

financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Please refer to the reconciliation schedules above that precedes this table.

The table below sets forth loans that were non-performing at December 31, 2020, 2019, 2018, 2017 and 2016.

	December 31,				
(amounts in thousands)	2020	2019	2018	2017	2016
Multi-family	$ 21,728	$ 4,117	$ 1,155	$ —	$ —
Commercial and industrial (1)	8,453	4,531	17,764	17,392	8,443
Commercial real estate	3,411	1,963	1,037	1,453	2,039
Commercial real estate non-owner occupied	2,356	76	129	160	2,057
Residential real estate	9,911	7,453	5,605	5,420	2,959
Manufactured housing	2,969	1,655	1,693	1,959	2,236
Installment	3,211	1,551	111	31	58
Total non-performing loans	$ 52,039	$ 21,346	$ 27,494	$ 26,415	$ 17,792

(1) Includes owner occupied commercial real estate loans.

Asset quality assurance activities include careful monitoring of borrower payment status and the periodic review of borrower current financial information to ensure ongoing financial strength and borrower cash flow viability. Customers has established credit policies and procedures, seeks the consistent application of those policies and procedures across the organization and adjusts policies as appropriate for changes in market conditions and applicable regulations.

Problem Loan Identification and Management

To facilitate the monitoring of credit quality within the commercial and industrial, multi-family, commercial real estate and construction portfolios and for purposes of analyzing historical loss rates used in the determination of the ACL for individually assessed loans, Customers utilizes the following categories of risk ratings: pass (there are six risk ratings for pass loans), special mention, substandard, doubtful or loss. The risk-rating categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated regularly thereafter. Pass ratings, which are assigned to those borrowers who do not have identified potential or well-defined weaknesses and for whom there is a high likelihood of orderly repayment, are updated periodically based on the size and credit characteristics of the borrower. All other categories are updated on a quarterly basis, generally during the month preceding the end of the calendar quarter. While assigning risk ratings involves judgment, the risk-rating process allows management to identify riskier credits in a timely manner and allocate the appropriate resources to manage the loans and leases. PPP loans are excluded as these loans are fully guaranteed by the SBA.

Customers assigns a special mention rating to loans and leases that have potential weaknesses that deserve management's close attention. If not addressed, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan and lease and Customers' financial position. At December 31, 2020 and 2019, special mention loans and leases were $250.6 million and $111.2 million, respectively, and are considered performing loans and are therefore not included in the tables above.

Risk ratings are not established for residential real estate, home equity loans, and installment loans mainly because these portfolios consist of a larger number of homogeneous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based on aggregate payment history through the monitoring of delinquency levels and trends.

A regular reporting and review process is in place to provide for proper portfolio oversight and control and to monitor those loans and leases identified as problem credits by management. This process is designed to assess Customers' progress in working toward a solution and to assist in determining an appropriate ACL. All loan work-out situations involve the active participation of management and are reported regularly to the Board of Directors. When a loan or lease becomes delinquent for 90 days or more, or earlier if considered appropriate, the loan is assigned to Customers' Special Asset Group for workout or other resolution.

Loan and lease charge-offs are determined on a case-by-case basis. Loans and leases are generally charged-off when principal is likely to be unrecoverable and after appropriate collection steps have been taken. Loan and lease charge-offs are proposed by the SAG and approved by the Board of Directors.

Loan and lease policies and procedures are reviewed internally for possible revisions and changes on a regular basis. In addition, these policies and procedures, together with the loan and lease portfolio, are reviewed on a periodic basis by various regulatory agencies and by our internal, external and loan review auditors, as part of their examination and audit procedures.

Troubled Debt Restructurings

At December 31, 2020, 2019, and 2018 there were $16.1 million, $13.3 million and $19.2 million, respectively, in loans categorized as a TDR. TDRs are reported as impaired loans in the period of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if the borrower satisfies a minimum six-month performance requirement; however, it will remain classified as impaired. Generally, Customers requires sustained performance for nine months before returning a TDR to accrual status.

Modification of PCD loans that are accounted for within loan pools in accordance with the accounting standards for PCD loans does not result in the removal of these loans from the pool even if the modification would otherwise be considered a TDR. Accordingly, as each pool is accounted for as a single asset with a single composite interest rate and an expectation of cash flows, modifications of loans within such pools are not reported as TDRs.

TDR modifications primarily involve interest-rate concessions, extensions of term, deferrals of principal and other modifications. Other modifications typically reflect other nonstandard terms which Customers would not offer in non-troubled situations. During the years ended December 31, 2020, 2019 and 2018, loans aggregating $3.7 million, $1.4 million and $1.7 million, respectively, were modified in TDRs. TDR modifications of loans within the commercial and industrial category were primarily extensions of term, deferrals of principal and other modifications; modifications of residential real estate loans were primarily extensions of term and deferrals of principal; and modifications of manufactured housing loans were primarily interest rate concessions, extensions of term and deferrals of principal. As of December 31, 2020 and 2019, there were no commitments to lend additional funds to debtors whose loans have been modified in TDRs. As of December 31, 2018, except for one commercial and industrial loan with an outstanding commitment of $1.5 million, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs.

As of December 31, 2020, fifteen installment loans totaling $226 thousand, six manufactured housing loans totaling $236 thousand and three residential real estate loans totaling $152 thousand that were modified in TDRs within the past twelve months defaulted on payments. As of December 31, 2019, three manufactured housing loans totaling $73 thousand and one residential real estate loan for $81 thousand that were modified in TDRs within the past twelve months defaulted on payments. As of December 31, 2018, four manufactured housing loans totaling $92 thousand that were modified in TDRs within the past twelve months defaulted on payments.

Loans modified in TDRs are evaluated for impairment. The nature and extent of impairment of TDRs, including those that have experienced a subsequent default, is considered in the determination of an appropriate level of ACL.

ACCRUED INTEREST RECEIVABLE

At December 31, 2020, accrued interest receivable totaled $80.4 million compared to $38.1 million at December 31, 2019. The increase primarily resulted from an increase in outstanding balances of interest-earning assets.

BANK PREMISES AND EQUIPMENT AND OTHER ASSETS

At December 31, 2020, bank premises and equipment, net of accumulated depreciation and amortization, totaled $11.6 million compared to $9.4 million at December 31, 2019. The increase primarily resulted from purchases of bank premises and equipment of $4.7 million, partially offset by depreciation and amortization expenses of $2.5 million.

At December 31, 2020, Customers Bank’s restricted stock holdings totaled $71.4 million compared to $84.2 million at December 31, 2019. These holdings consist of stock of the Federal Reserve Bank, the FHLB and Atlantic Community Bankers Bank and are required as part of our relationship with these banks.

At December 31, 2020, the cash surrender value of BOLI totaled $280.1 million compared to $272.5 million at December 31, 2019. Presented within BOLI on the consolidated balance sheet is the cash surrender value of the SERP balances of $4.3 million and $3.8 million at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, other assets totaled $389.7 million and $298.1 million, respectively. Other assets consist primarily of cash pledged for swaps, ROU lease assets (the adoption of ASC 842 on January 1, 2019 resulted in ROU lease assets of $20.2 million at December 31, 2019), operating leases through Customers' Equipment Finance Group (net investment in operating leases of $103.9 million at December 31, 2020 compared to $94.7 million at December 31, 2019), mark-to-market adjustments for interest-rate swaps, software, deferred tax assets, net and prepaid expenses.

DEPOSITS

Customers offers a variety of deposit accounts, including checking, savings, MMDA and time deposits. Deposits are primarily obtained from Customers' geographic service area and nationwide through branchless digital banking, our white label relationship, deposit brokers, listing services and other relationships.

The components of deposits at December 31, 2020 and 2019 were as follows:

	December 31,			
(dollars in thousands)	2020	2019	Change	% Change
Demand, non-interest bearing	$ 2,356,998	$ 1,343,391	$ 1,013,607	75.5 %
Demand, interest bearing	2,384,691	1,235,292	1,149,399	93.0 %
Savings, including MMDA	5,916,309	4,401,719	1,514,590	34.4 %
Non-time deposits	10,657,998	6,980,402	3,677,596	52.7 %
Time, $100,000 and over	470,923	402,161	68,762	17.1 %
Time, other	181,008	1,266,373	(1,085,365)	(85.7)%
Time deposits	651,931	1,668,534	(1,016,603)	(60.9)%
Total deposits	$ 11,309,929	$ 8,648,936	$ 2,660,993	30.8 %

Total deposits were $11.3 billion at December 31, 2020, an increase of $2.7 billion, or 30.8%, from $8.6 billion at December 31, 2019. Non-time deposits increased by $3.7 billion, or 52.7%, to $10.7 billion at December 31, 2020, from $7.0 billion at December 31, 2019. This increase was primarily driven by Customers' initiative to improve its net interest margin by expanding its sources of lower-cost funding. These efforts led to increases in non-interest bearing demand deposits of $1.0 billion, interest bearing demand deposits of $1.1 billion and savings, including MMDA, of $1.5 billion. These increases were offset in part by decreases in time deposits of $1.0 billion, or 60.9%.

At December 31, 2020 the Bank had $1.2 billion in state and municipal deposits to which it had pledged $1.2 billion of available borrowing capacity through the FHLB to the depositors through a letter of credit arrangement.

Time deposits greater than $250,000 totaled $0.3 billion and $0.2 billion at December 31, 2020, and 2019, respectively.

Average deposit balances by type and the associated average rate paid are summarized below:

	For the Years Ended December 31,			
	2020		2019	
(dollars in thousands)	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Demand, non-interest bearing	$ 2,052,376	0.00 %	$ 1,430,149	0.00 %
Demand, interest-bearing	2,098,138	0.89 %	955,630	1.82 %
Savings, including MMDA	4,819,894	1.08 %	3,689,703	2.17 %
Time deposits	1,357,688	1.58 %	1,943,361	2.26 %
Total	$ 10,328,096	0.89 %	$ 8,018,843	1.76 %

At December 31, 2020, the scheduled maturities of time deposits greater than $100,000 were as follows:

(amounts in thousands)	December 31, 2020
3 months or less	$ 154,374
Over 3 through 6 months	95,898
Over 6 through 12 months	134,502
Over 12 months	86,149
Total	$ 470,923

For additional information, see NOTE 10 - DEPOSITS to Customers' audited financial statements.

FHLB ADVANCES AND OTHER BORROWINGS

Borrowed funds from various sources are generally used to supplement deposit growth and meet other operating needs. Customers' borrowings generally include short-term and long-term advances from the FHLB, FRB, including from the PPPLF, federal funds purchased, senior unsecured notes and subordinated debt. Subordinated debt is also considered as Tier 2 capital for certain regulatory calculations.

Short-term debt

Short-term debt at December 31, 2020 and 2019 was as follows:

	December 31,			
	2020		2019	
(amounts in thousands)	Amount	Rate	Amount	Rate
FHLB advances	$ 850,000	1.19 %	$ 500,000	2.15 %
Federal funds purchased	250,000	0.09 %	538,000	1.60 %
Total short-term borrowings	$ 1,100,000		$ 1,038,000	

For additional information on Customers' short-term debt, see NOTE 11 – BORROWINGS to Customers' audited financial statements.

Long-term debt

FHLB and FRB Advances

Long-term FHLB and FRB advances at December 31, 2020 and 2019, was as follows:

	December 31,			
	2020		2019	
(amounts in thousands)	Amount	Rate	Amount	Rate
FHLB advances	$ —	— %	$ 350,000	2.36 %
FRB PPP Liquidity Facility advances	4,415,016	0.35 %	—	— %
Total long-term FHLB advances	$ 4,415,016		$ 350,000	

There were no advances outstanding with the FRB at December 31, 2020 and 2019, respectively.

Beginning in second quarter 2020, Customers began participating in the PPPLF, in which Federal Reserve Banks extend non-recourse loans to institutions that are eligible to make PPP loans. Only PPP loans that are guaranteed by the SBA under the PPP, with respect to both principal and interest that are originated or purchased by an eligible institution, may pledge as collateral to the Federal Reserve Banks.

The maximum borrowing capacity with the FHLB and FRB at December 31, 2020 and 2019, was as follows:

(amounts in thousands)	December 31, 2020	December 31, 2019
Total maximum borrowing capacity with the FHLB	$ 2,729,516	$ 3,445,416
Total maximum borrowing capacity with the FRB (1)	223,299	136,842
Qualifying loans serving as collateral against FHLB and FRB advances (1)	3,363,364	4,496,983

(1) Amounts reported in the above table exclude borrowings under the PPPLF, which are limited to the face value of the loans originated under the PPP. At December 31, 2020, Customers had $4.4 billion of borrowings under the PPPLF, with a borrowing capacity of up to $4.7 billion, which is the remaining face value (following forgiveness) of the qualifying loans Customers has originated under the PPP.

Senior Notes and Subordinated Debt

Long-term senior notes and subordinated debt at December 31, 2020 and 2019 was as follows:

(dollars in thousands)		December 31, 2020	December 31, 2019					
Issued by	Ranking	Carrying Amount	Carrying Amount	Rate	Issued Amount	Date Issued	Maturity	Price
Customers Bancorp	Senior	$ 24,552	$ 24,432	4.500 %	$ 25,000	September 2019	September 2024	100.000 %
Customers Bancorp	Senior	99,485	99,198	3.950 %	100,000	June 2017	June 2022	99.775 %
Total other borrowings		124,037	123,630					
Customers Bancorp	Subordinated (1)(2)	72,222	72,040	5.375 %	74,750	December 2019	December 2034	100.000 %
Customers Bank	Subordinated (1)(3)	109,172	109,075	6.125 %	110,000	June 2014	June 2029	100.000 %
Total subordinated debt		$ 181,394	$ 181,115					

(1) The subordinated notes qualify as Tier 2 capital for regulatory capital purposes.
(2) Customers Bancorp has the ability to call the subordinated notes, in whole, or in part, at a redemption price equal to 100% of the principal balance at certain times on or after December 30, 2029.
(3) The subordinated notes will bear an annual fixed rate of 6.125% until June 26, 2024. From June 26, 2024 until maturity, the notes will bear an annual interest rate equal to the three-month LIBOR plus 344.3 basis points. Customers Bank has the ability to call the subordinated notes, in whole, or in part, at a redemption price equal to 100% of the principal balance at certain times on or after June 26, 2024.

SHAREHOLDERS' EQUITY

The components of shareholders' equity were as follows at the dates indicated:

(dollars in thousands)	December 31, 2020	December 31, 2019	Change	% Change
Preferred stock	$ 217,471	$ 217,471	$ —	— %
Common stock	32,986	32,617	369	1.1 %
Additional paid in capital	455,592	444,218	11,374	2.6 %
Retained earnings	438,581	381,519	57,062	15.0 %
Accumulated other comprehensive loss, net	(5,764)	(1,250)	(4,514)	361.1 %
Treasury stock	(21,780)	(21,780)	—	0.0 %
Total shareholders' equity	$ 1,117,086	$ 1,052,795	$ 64,291	6.1 %

Shareholders' equity increased by $64.3 million, or 6.1%, to $1.1 billion at December 31, 2020, when compared to shareholders' equity of $1.1 billion at December 31, 2019. The increase primarily resulted from net income of $132.6 million for the year ended December 31, 2020 and an increase of $11.4 million in additional paid in capital, partially offset by a decrease in retained earnings of $61.5 million upon adoption of CECL and preferred stock dividends of $14.0 million, and an increase in accumulated other comprehensive loss of $4.5 million. The increase in accumulated other comprehensive loss, net primarily resulted from a decline in the fair value of cash flow hedges, partially offset by an increase in the fair value of AFS debt securities, both due to the decline in market interest rates during the year. The increases in additional paid in capital resulted primarily from the issuance of common stock under share-based compensation arrangements for the year ended December 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for a financial institution is a measure of that institution's ability to meet depositors' needs for funds, to satisfy or fund loan commitments and for other operating purposes. Ensuring adequate liquidity is an objective of the asset/liability management process. Customers coordinates its management of liquidity with its interest-rate sensitivity and capital position and strives to maintain a strong liquidity position that is sufficient to meet Customers' short-term and long-term needs, commitments and contractual obligations.

Customers' investment portfolio provides periodic cash flows through regular maturities and amortization and can be used as collateral to secure additional funding. Customers' principal sources of funds are deposits, borrowings, principal and interest payments on loans and leases, other funds from operations, and proceeds from common and preferred stock issuances. Borrowing arrangements are maintained with the FHLB and the FRB to meet short-term liquidity needs. Longer-term borrowing arrangements are also maintained with the FHLB. As of December 31, 2020, Customers' borrowing capacity with the FHLB was $2.7 billion, of which $0.9 billion was utilized in borrowings and commitments and $1.2 billion of available capacity was utilized to collateralize state and municipal deposits. As of December 31, 2019, Customers' borrowing capacity with the FHLB was $3.4 billion, of which $0.9 billion was utilized in borrowings and commitments; and $1.4 billion of available capacity was used to collateralize state and municipal deposits. As of December 31, 2020 and 2019, Customers' borrowing capacity with the FRB was $223.3 million and $136.8 million, respectively.

Beginning in second quarter 2020, Customers began participating in the PPPLF, in which Federal Reserve Banks extend non-recourse loans to institutions that are eligible to make PPP loans. Only PPP loans that are guaranteed by the SBA under the PPP, with respect to both principal and interest that are originated or purchased by an eligible institution, may be pledged as collateral to the Federal Reserve Banks. As of December 31, 2020, Customers had $4.4 billion in borrowings under the PPPLF. Customers expects to continue utilizing the PPPLF to fund additional PPP loans to be originated under the CAA in 2021.

The principal source of the Bancorp's liquidity is the dividends it receives from the Bank, which may be impacted by the following: bank-level capital needs, laws and regulations, corporate policies, contractual restrictions and other factors. The Bank has generated sufficient positive cash flows from operations to pay dividends to the Bancorp. However, there are statutory and regulatory limitations on the ability of the Bank to pay dividends or make other capital distributions or to extend credit to the Bancorp or its non-bank subsidiaries.

The table below summarizes Customers' cash flows for the years indicated:

	For the Years Ended December 31,			
(dollars in thousands)	2020	2019	Change	% Change
Net cash provided by (used in) operating activities	$ 133,025	$ 78,280	$ 54,745	69.9 %
Net cash provided by (used in) investing activities	(6,424,969)	(1,444,435)	(4,980,534)	344.8 %
Net cash provided by (used in) financing activities	6,772,793	1,516,525	5,256,268	346.6 %
Net increase (decrease) in cash and cash equivalents	$ 480,849	$ 150,370	$ 330,479	219.8 %

Cash flows provided by (used in) operating activities

Cash provided by operating activities of $133.0 million for the year ended December 31, 2020 primarily resulted from net income of $132.6 million, non-cash operating adjustments of $57.8 million, and an increase of $38.5 million in accrued interest payable and other liabilities, partially offset by an increase of $95.8 million in accrued interest receivable and other assets.

Cash provided by operating activities of $78.3 million for the year ended December 31, 2019 primarily resulted from net income of $79.3 million, non-cash operating adjustments of $68.1 million, and an increase of $15.0 million in accrued interest payable and other liabilities, partially offset by an increase of $84.1 million in accrued interest receivable and other assets.

Cash flows provided by (used in) investing activities

Cash used in investing activities of $6.4 billion for the year ended December 31, 2020 primarily resulted from an increase in loans and leases, excluding mortgage warehouse loans, of $4.2 billion, primarily from the origination of PPP loans, net originations of mortgage warehouse loans of $1.4 billion, purchases of investment securities AFS of $1.2 billion, and purchases of loans of $0.3 billion, partially offset by proceeds from sale of investment securities available for sale of $387.8 million, proceeds from maturities, calls and principal repayments on investment securities of $236.1 million, and proceeds from the sales of loans of $26.4 million.

Cash used in investing activities of $1.4 billion for the year ended December 31, 2019 primarily resulted from purchases of loans of $1.2 billion and net originations of mortgage warehouse loans of $881.6 million, partially offset by proceeds from the sales of loans of $273.4 million, a decrease in loans and leases, excluding mortgage warehouse loans, of $239.0 million and proceeds from sales of investment securities available for sale of $97.6 million.

Cash flows provided by (used in) financing activities

Cash provided by financing activities of $6.8 billion for the year ended December 31, 2020 primarily resulted from net increases in long-term borrowed funds from the FRB of $4.4 billion primarily to finance the PPP loan originations, and an increase in deposits of $2.7 billion, partially offset by net decrease in federal funds purchased of $288.0 million.

Cash provided by financing activities of $1.5 billion for the year ended December 31, 2019 primarily resulted from an increase in deposits of $1.5 billion, proceeds from long-term FHLB borrowings of $350.0 million and net federal funds purchased of $351.0 million, partially offset by repayment of short-term borrowed funds from the FHLB of $748.1 million.

CAPITAL ADEQUACY

The Bank and Bancorp are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Customers' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and Bancorp must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under the regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In first quarter 2020, U.S federal banking regulatory agencies permitted banking organizations to phase-in, for regulatory capital purposes, the day-one impact of the new CECL accounting rule on retained earnings over a period of three years. As part of its response to the impact of COVID-19, on March 31, 2020, the U.S. federal banking regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule allows banking organizations to delay for two years 100% of the day-one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. Customers has elected to adopt the interim final rule, which is reflected in the regulatory capital data presented below.

In April 2020, the U.S. federal banking regulatory agencies issued an interim final rule that permits banks to exclude the impact of participating in the SBA PPP program in their regulatory capital ratios. Specifically, PPP loans are zero percent risk weighted and a bank can exclude all PPP loans pledged as collateral to the PPPLF from its average total consolidated assets for purposes of calculating the Tier 1 capital to average assets ratio (i.e. leverage ratio). Customers applied this regulatory guidance in the calculation of its regulatory capital ratios presented below.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and Tier 1 capital to average assets (as defined in the regulations). At December 31, 2020 and 2019, the Bank and the Bancorp met all capital adequacy requirements to which they were subject.

Generally, to comply with the regulatory definition of adequately capitalized, or well capitalized, respectively, or to comply with the Basel III capital requirements, an institution must at least maintain the common equity Tier 1, Tier 1 and total risk-based capital ratios and the Tier 1 leverage ratio in excess of the related minimum ratios set forth in the following table.

			Minimum Capital Levels to be Classified as:					
	Actual		Adequately Capitalized		Well Capitalized		Basel III Compliant	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020								
Common equity Tier 1 (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 954,839	8.079 %	$ 531,844	4.500 %	N/A	N/A	$ 827,312	7.000 %
Customers Bank	$ 1,254,082	10.615 %	$ 531,639	4.500 %	$ 767,923	6.500 %	$ 826,994	7.000 %
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 1,172,310	9.919 %	$ 709,125	6.000 %	N/A	N/A	$ 1,004,594	8.500 %
Customers Bank	$ 1,254,082	10.615 %	$ 708,852	6.000 %	$ 945,136	8.000 %	$ 1,004,207	8.500 %
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 1,401,119	11.855 %	$ 945,500	8.000 %	N/A	N/A	$ 1,240,969	10.500 %
Customers Bank	$ 1,424,791	12.060 %	$ 945,136	8.000 %	$ 1,181,421	10.000 %	$ 1,240,492	10.500 %
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$ 1,172,310	8.597 %	$ 545,485	4.000 %	N/A	N/A	$ 545,485	4.000 %
Customers Bank	$ 1,254,082	9.208 %	$ 544,758	4.000 %	$ 680,947	5.000 %	$ 544,758	4.000 %
December 31, 2019								
Common equity Tier 1 (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 821,810	7.984 %	$ 463,211	4.500 %	N/A	N/A	$ 720,551	7.000 %
Customers Bank	$ 1,164,652	11.323 %	$ 462,842	4.500 %	$ 668,549	6.500 %	$ 719,976	7.000 %
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 1,039,281	10.096 %	$ 617,615	6.000 %	N/A	N/A	$ 874,955	8.500 %
Customers Bank	$ 1,164,652	11.323 %	$ 617,122	6.000 %	$ 822,829	8.000 %	$ 874,256	8.500 %
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 1,256,309	12.205 %	$ 823,487	8.000 %	N/A	N/A	$ 1,080,827	10.500 %
Customers Bank	$ 1,330,155	12.933 %	$ 822,829	8.000 %	$ 1,028,537	10.000 %	$ 1,079,964	10.500 %
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$ 1,039,281	9.258 %	$ 449,026	4.000 %	N/A	N/A	$ 449,026	4.000 %
Customers Bank	$ 1,164,652	10.379 %	$ 448,851	4.000 %	$ 561,064	5.000 %	$ 448,851	4.000 %

The capital ratios above reflect the capital requirements under "Basel III" adopted effective during first quarter 2015 and the capital conservation buffer phased in beginning January 1, 2016. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. As of December 31, 2020, the Bank and Customers Bancorp were in compliance with the Basel III requirements. See NOTE 18 - REGULATORY CAPITAL to Customers' audited financial statements for additional discussion regarding regulatory capital requirements.

Capital Ratios

Customers continued to build capital during 2020 and 2019. However, the decision made in fourth quarter 2019 to cross the $10.0 billion asset threshold at year-end, with total assets of $11.5 billion at December 31, 2019, resulted in lower capital ratios when compared to December 31, 2018. In general, for the past few years, Customers Bancorp capital growth has been achieved by retained earnings and issuances of common stock under share-based compensation arrangements, offset in part by the repurchase of common shares. Customers Bancorp did not repurchase any common shares under a stock repurchase plan in 2020. Customers Bank capital growth has been achieved by retained earnings and capital contributions from Customers Bancorp from proceeds received from issuances of senior and subordinated notes. During 2020 and 2019, Customers Bancorp did not issue any preferred stock or common stock other than in connection with share-based compensation agreements. For more information relating to preferred and common stock, see NOTE 12 - SHAREHOLDERS' EQUITY to Customers' audited financial statements.

Customers is unaware of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on its liquidity, capital resources, or operations.

The maintenance of appropriate levels of capital is an important objective of Customers' asset and liability management process. Through its initial capitalization and subsequent offerings, Customers believes it has continued to maintain a strong capital position. Since first quarter 2015, Customers Bank's board of directors has declared a quarterly cash dividend to the Bank's sole shareholder, Customers Bancorp. Cash dividends declared by the Bank and paid to Customers Bancorp during 2020 and 2019, include the following:

- $14.5 million declared on January 30, 2019, and paid on March 11, 2019;
- $15.5 million declared on April 22, 2019, and paid on June 10, 2019;
- $20.0 million declared on July 24, 2019, and paid on September 10, 2019;
- $20.0 million declared on October 23, 2019, and paid on December 10, 2019;
- $20.0 million declared on January 22, 2020, and paid on March 10, 2020;
- $20.0 million declared on April 22, 2020, and paid on June 10, 2020;
- $5.0 million declared on July 22, 2020, and paid on September 10, 2020; and
- $20.0 million declared and paid on December 31, 2020.

OFF-BALANCE SHEET ARRANGEMENTS

Customers is involved with financial instruments and other commitments with off-balance sheet risks. Financial instruments with off-balance sheet risks are incurred in the normal course of business to meet the financing needs of the Bank's customers. These financial instruments include commitments to extend credit, including unused portions of lines of credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheet.

With commitments to extend credit, exposure to credit loss in the event of non-performance by the other party to the financial instrument is represented by the contractual amount of those instruments. The same credit policies are used in making commitments and conditional obligations as for on-balance-sheet instruments. Because they involve credit risk similar to extending a loan and lease, these financial instruments are subject to the Bank’s credit policy and other underwriting standards.

As of December 31, 2020 and 2019, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	December 31,	
(amounts in thousands)	2020	2019
Commitments to fund loans and leases	$ 262,153	$ 261,902
Unfunded commitments to fund mortgage warehouse loans	1,933,067	1,378,364
Unfunded commitments under lines of credit and credit cards	1,009,031	1,065,474
Letters of credit	27,166	48,856
Other unused commitments	1,842	2,736

Commitments to fund loans and leases, unfunded commitments to fund mortgage warehouse loans, unfunded commitments under lines of credit, letters of credit, and credit cards are agreements to extend credit to or for the benefit of a customer in the ordinary course of the Bank's business.

Commitments to fund loans and leases and unfunded commitments under lines of credit may be obligations of the Bank as long as there is no violation of any condition established in the contract. Because many of the commitments are expected to expire without having been drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if the Bank deems it to be necessary upon extension of credit, is based on management’s credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Mortgage warehouse loan commitments are agreements to fund the pipelines of mortgage banking businesses from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans are insured or guaranteed by the U.S. government through one of its programs such as FHA, VA, or they are conventional loans eligible for sale to Fannie Mae and Freddie

Mac. These commitments generally fluctuate monthly based on changes in interest rates, refinance activity, new home sales and laws and regulation.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit may obligate the Bank to fund draws under those letters of credit whether or not a customer continues to meet the conditions of the extension of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan and lease facilities to customers.

As described in Note 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements, ACL on lending related commitments is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which Customers is exposed to credit risk resulting from a contractual obligation to extend credit. No ACL is recognized if Customers have the unconditional right to cancel the obligation. Off-balance-sheet credit commitments primarily consist of amounts available under outstanding lines of credit and letters of credit disclosed above. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance-sheet exposure. Customers estimates the expected credit losses for undrawn or unfunded commitments using a usage given default calculation. The lifetime loss rates for off-balance sheet credit exposures are calculated in the same manner as on-balance sheet credit exposures, using the same models and economic forecasts, adjusted for the estimated likelihood that funding will occur. Customers recorded $3.4 million of ACL for lending related commitments upon its adoption of ASC 326 and recognized a credit loss benefit of $1.1 million during the year resulting in an ACL of $2.3 million as of December 31, 2020. The ACL on lending-related commitments is recorded in accrued interest payable and other liabilities in the consolidated balance sheet and the credit loss expense is recorded as a provision for credit losses within other non-interest expense in the consolidated income statement.

CONTRACTUAL OBLIGATIONS

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2020. Interest on subordinated notes and senior notes was calculated using the current contractual interest rates.

Contractual cash obligations

(amounts in thousands)	Within one year	After one but within three years	After three but within five years	More than five years	Total
On-balance sheet obligations					
Demand deposits	$ 10,657,998	$ —	$ —	$ —	$ 10,657,998
Time deposits	519,437	126,653	5,837	4	651,931
Federal funds purchased	250,000	—	—	—	250,000
FHLB advances - short-term	850,000	—	—	—	850,000
FRB PPP Liquidity Facility advances (1)	—	4,038,182	376,834	—	4,415,016
Interest on FRB PPP Liquidity Facility advances	15,453	30,905	22,535	—	68,893
Senior notes	—	100,000	25,000	—	125,000
Subordinated notes	—	—	—	184,750	184,750
Interest on senior notes	5,075	4,225	1,125	—	10,425
Interest on subordinated notes (2)	10,755	21,511	21,511	59,742	113,519
Low income housing contributions	5,322	22	22	79	5,445
Benefit plan commitments	300	600	600	3,000	4,500
Operating leases	5,142	8,517	4,540	1,446	19,645
Total on-balance sheet obligations	$ 12,319,482	$ 4,330,615	$ 458,004	$ 249,021	$ 17,357,122
Off-balance sheet obligations					
Loan commitments	$ 2,436,419	$ 210,381	$ 29,899	$ 527,552	$ 3,204,251
Other commitments (3)	—	1,842	—	—	1,842
Standby letters of credit	13,383	13,783	—	—	27,166
Total off-balance sheet obligations	$ 2,449,802	$ 226,006	$ 29,899	$ 527,552	$ 3,233,259
Total contractual cash obligations	$ 14,769,284	$ 4,556,621	$ 487,903	$ 776,573	$ 20,590,381

(1) Represents contractual maturities of PPP loans collateralizing the FRB PPP Liquidity Facility advances.
(2) The subordinated notes will bear an annual fixed rate of 6.125% until June 26, 2024. From June 26, 2024 until maturity, the notes will bear an annual interest rate equal to the three-month LIBOR plus 344.3 basis points. Customers Bank has the ability to call the subordinated notes, in whole, or in part, at a redemption price equal to 100% of the principal balance at certain times on or after June 26, 2024.
(3) Represents commitments funding in approximately one-to-three years that are subject to unscheduled requests for payment.

Effect of Government Monetary Policies

Our earnings are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. An important function of the Federal Reserve Board is to regulate the money supply and interest rates. Among the instruments used to implement those objectives are open market operations in United States government securities and changes in reserve requirements against member bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans and leases, investments, and deposits, and their use may also affect rates charged on loans and leases or paid for deposits.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Sensitivity

The largest component of Customers' net income is net interest income, and the majority of its financial instruments are interest rate sensitive assets and liabilities with various term structures and maturities. One of the primary objectives of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals and differences in lending and funding rates. Customers' asset/liability committee actively seeks to monitor and control the mix of interest rate sensitive assets and interest rate sensitive liabilities.

Customers uses two complementary methods to analyze and measure interest rate sensitivity as part of the overall management of interest rate risk; they are income simulation modeling and estimates of EVE. The combination of these two methods provides a reasonably comprehensive summary of the levels of interest rate risk of Customers' exposure to time factors and changes in interest rate environments.

Income scenario modeling is used to measure interest rate sensitivity and manage interest rate risk. Income scenario considers not only the impact of changing market interest rates upon forecasted net interest income but also other factors such as yield curve relationships, the volume and mix of assets and liabilities, customer preferences and general market conditions.

Through the use of income scenario modeling, Customers has estimated the net interest income for the year ending December 31, 2021, based upon the assets, liabilities and off-balance sheet financial instruments in existence at December 31, 2020. Customers has also estimated changes to that estimated net interest income based upon interest rates rising or falling immediately ("rate shocks"). For upward rate shocks modeling a rising rate environment at December 31, 2020, current market interest rates were increased immediately by 100, 200 and 300 basis points. For downward rate shocks modeling a falling rate environment, current market rates were only decreased immediately by 100 basis points due to the limitations of the current low interest rate environment that renders the Down 200 and Down 300 rate shocks impractical. The downward rate shocks modeled will be revisited in the future if necessary and will be contingent upon additional Federal Reserve interest rate hikes. The following table reflects the estimated percentage change in estimated net interest income for the year ending December 31, 2021 and 2020, resulting from changes in interest rates.

Net change in net interest income

	% Change December 31,	
Rate Shocks	2021	2020
Up 3%	(2.7)%	3.3%
Up 2%	(1.6)%	2.7%
Up 1%	(0.8)%	1.6%
Down 1%	1.4%	(1.9)%
Down 2%	N/A	N/A

The net changes in net interest income in all scenarios are within Customers Bank's interest rate risk policy guidelines.

EVE estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for comparable assets and liabilities. Upward and downward rate shocks are used to measure volatility of EVE in relation to a constant rate environment. For upward rate shocks modeling a rising rate environment at December 31, 2020, current market interest rates were increased immediately by 100, 200 and 300 basis points. For downward rate shocks modeling a falling rate environment, current market rates were decreased immediately by 100 basis points due to the limitations of the current low interest rate environment that renders the downward 200 and 300 rate shocks impractical. The downward rate shocks modeled will be revisited in the future if necessary and will be contingent upon additional Federal Reserve interest rate hikes. This method of measurement primarily evaluates the longer-term repricing risks and options in Customers Bank’s balance sheet. The following table reflects the estimated EVE at risk and the ratio of EVE to EVE adjusted assets at December 31, 2020 and 2019, resulting from the referenced shocks to interest rates.

	From Base December 31,	
Rate Shocks	2020	2019
Up 3%	(18.9)%	(5.6)%
Up 2%	(12.2)%	(2.0)%
Up 1%	(6.1)%	(0.1)%
Down 1%	(4.2)%	(1.1)%
Down 2%	N/A	N/A

The net changes in EVE in all scenarios are within Customers Bank's interest rate risk policy guidelines.

The matching of assets and liabilities may also be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank’s interest rate sensitivity “gap.” An asset or liability is considered interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest earning assets maturing or repricing within a specific time period and the amount of interest bearing liabilities maturing or repricing within that time period.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2020, that are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2020, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be repaid and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable and fixed-rate loans and as a result of contractual-rate adjustments on adjustable-rate loans.

Balance Sheet Gap Analysis at December 31, 2020

(dollars in thousands)	3 months or less	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Assets							
Interest-earning deposits and federal funds sold	$ 615,264	$ —	$ —	$ —	$ —	$ —	$ 615,264
Investment securities	810,050	6,888	13,681	63,270	91,571	224,825	1,210,285
Loans and leases (a)	5,885,614	567,995	697,224	3,260,565	4,752,951	667,902	15,832,251
Other interest-earning assets	—	—	—	—	80,412	—	80,412
Total interest-earning assets	7,310,928	574,883	710,905	3,323,835	4,924,934	892,727	17,738,212
Non interest-earning assets	—	—	—	—	25,330	675,706	701,036
Total assets	$ 7,310,928	$ 574,883	$ 710,905	$ 3,323,835	$ 4,950,264	$ 1,568,433	$ 18,439,248
Liabilities							
Other interest-bearing deposits	$ 466,151	$ 664,502	$ 784,365	$ 2,375,439	$ 1,362,288	$ 2,648,255	$ 8,301,000
Time deposits	$ 204,768	138,577	181,667	121,132	5,787	—	651,931
Federal funds purchased and other borrowings	$ 750,000	350,000	—	4,038,181	376,835	—	5,515,016
Subordinated debt	—	—	—	—	109,172	—	109,172
Total interest-bearing liabilities	1,420,919	1,153,079	966,032	6,534,752	1,854,082	2,648,255	14,577,119
Non-interest-bearing liabilities	231,215	128,705	236,839	841,095	520,318	714,649	2,672,821
Shareholders' equity	—	—	—	—	—	1,189,308	1,189,308
Total liabilities and shareholders' equity	$ 1,652,134	$ 1,281,784	$ 1,202,871	$ 7,375,847	$ 2,374,400	$ 4,552,212	$ 18,439,248
Interest sensitivity gap	$ 5,658,794	$ (706,901)	$ (491,966)	$ (4,052,012)	$ 2,575,864	$ (2,983,779)	
Cumulative interest sensitivity gap		$ 4,951,893	$ 4,459,927	$ 407,915	$ 2,983,779	$ —	
Cumulative interest sensitivity gap to total assets	30.7 %	26.8 %	24.2 %	2.2 %	16.2 %	0.0 %	
Cumulative interest-earning assets to cumulative interest-bearing liabilities	514.5 %	306.4 %	242.8 %	118.3 %	141.2 %	121.7 %	

(a) Includes loans held for sale

As shown above, Customers has a positive cumulative gap (cumulative interest-sensitive assets are higher than cumulative interest-sensitive liabilities) within the next year, which generally indicates that an increase in rates may lead to an increase in net interest income, and a decrease in rates may lead to a decrease in net interest income. Interest rate sensitivity gap analysis measures whether assets or liabilities may reprice but does not capture the ability to reprice or the range of potential repricing on assets or liabilities. Thus, indications based on a negative or positive gap position need to be analyzed in conjunction with other interest rate risk management tools.

Management believes that the assumptions and combination of methods utilized in evaluating estimated net interest income are reasonable. However, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments, as well as the estimated effect of changes in interest rates on estimated net interest income, could vary substantially if different assumptions were to be used or actual experience were to differ from the assumptions used in the model.

Item 8. Financial Statements and Supplementary Data

Financial statements for the three years ended
December 31, 2020, 2019 and 2018

INDEX TO CUSTOMERS BANCORP, INC. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Customers Bancorp, Inc.
West Reading, Pennsylvania

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Customers Bancorp, Inc. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As described in Notes 2 and 7 to the consolidated financial statements, the Company changed its method for estimating the allowance for credit losses on January 1, 2020 due to the adoption of *Financial Instruments – Credit Losses (Topic 326)*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Refer to Notes 2 and 7 to the consolidated financial statements

Critical Audit Matter Description

Management's estimate of expected credit losses in the Company's loan and lease portfolios is recorded in the allowance for loan and lease losses (the "ACL"). The ACL is a valuation account that is deducted from the loan or lease's amortized cost basis to present the net amount expected to be collected on the loans and leases.

The ACL on collectively assessed loans and leases is measured over the expected life of the loan or lease using lifetime loss rate models which consider historical loan performance, loan or borrower attributes, and forecasts of future economic conditions in addition to information about past events and current conditions. Significant loan/borrower attributes utilized in the models include origination date, maturity date, collateral property type, internal risk rating, delinquency status, borrower state and FICO score at origination. Customers uses external sources in the creation of its forecasts, including current economic conditions and forecasts for macroeconomic variables over its reasonable and supportable forecast period (e.g., GDP growth rate, unemployment rate, BBB spread, commercial real estate and home price indices). After the reasonable and supportable forecast period, which ranges from two to five years, the models revert the forecasted macroeconomic variables to their historical long-term trends, without specific predictions for the economy, over the expected life of the pool. The Company estimates its ACL on a quarterly basis and qualitatively adjusts model results for risk factors that are not considered within the models, but which are relevant in assessing the expected credit losses within the loan and lease pools.

The ACL for loans or leases is measured individually if it does not share similar risk characteristics with other financial assets. The ACL is generally determined using the present value of expected future cash flows discounted at the loan’s original effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The fair value of the collateral is measured based on the value of the collateral securing the loans, less estimated costs to liquidate the collateral.

Given the size of the loan and lease portfolios and the subjective nature of estimating the ACL, including the estimated impact of COVID-19, auditing the ACL involved a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the ACL for the loan and lease portfolios included the following, among others:

- We tested the effectiveness of controls over the (i) selection and weighting of the macroeconomic forecasts, (ii) execution and monitoring of the loss rate models, (iii) calibration of the loss rate models to peer and industry information, (iv) determination of the qualitative allowance, (v) the monitoring and valuation of collateral dependent loans, particularly those industries affected by COVID-19, and (vi) overall calculation and disclosure of the ACL.
- We used our credit and valuation specialists to assist us in evaluating the reasonableness of the loss rate models and valuation of collateral dependent loans.
- We (i) evaluated the reasonableness of the loss rate models and related assumptions, (ii) assessed the reasonableness of design, theory, and logic of the loss rate models for estimating expected credit losses, (iii) tested the accuracy of the data input into the loss rate models, and (iv) assessed the reasonableness of the models’ calculations of loss rates derived from the loss rate models.
- We (i) assessed the reasonableness of the methodologies and appraisals used by management to estimate collateral values on collateral dependent loans, particularly those loans in industry sectors that are affected by COVID-19, (ii) tested the arithmetic accuracy of the reserves or charge-offs, and (iii) considered available information subsequent to December 31, 2020 that provides additional evidence about conditions that existed at the balance sheet date.
- We (i) evaluated the reasonableness of management’s forecast selection, (ii) evaluated the appropriateness and relevance of the qualitative factors, including forecast weighting, and related quantitative measures included in the qualitative allowance, (iii) tested the accuracy and evaluated the relevance and reliability of the data, including third party data, used to calibrate the loss rate models to peer and industry information, and (iv) tested the arithmetic accuracy of the calculation of the qualitative allowance.
- We tested the arithmetic accuracy of the calculation of the overall ACL and assessed the reasonableness of the related disclosures.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
March 1, 2021

We have served as the Company's auditor since 2019.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Customers Bancorp, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Customers Bancorp, Inc. and its subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company, and our report dated March 1, 2021, expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the Company's adoption of FASB ASC Topic 326, *Financial Instruments-Credit Losses*, effective January 1, 2020.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
March 1, 2021

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Customers Bancorp, Inc.
West Reading, Pennsylvania

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows of Customers Bancorp, Inc. (the "Company") and subsidiaries for the year ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor from 2013 to 2019.

Philadelphia, Pennsylvania
March 1, 2019

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share and per share data)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 78,090	$ 33,095
Interest earning deposits	615,264	179,410
Cash and cash equivalents	693,354	212,505
Investment securities, at fair value	1,210,285	595,876
Loans held for sale (includes $5,509 and $2,130, respectively, at fair value)	79,086	486,328
Loans receivable, mortgage warehouse, at fair value	3,616,432	2,245,758
Loans receivable, PPP	4,561,365	—
Loans and leases receivable	7,575,368	7,318,988
Allowance for credit losses on loans and leases	(144,176)	(56,379)
Total loans and leases receivable, net of allowance for credit losses on loans and leases	15,608,989	9,508,367
FHLB, Federal Reserve Bank, and other restricted stock	71,368	84,214
Accrued interest receivable	80,412	38,072
Bank premises and equipment, net	11,626	9,389
Bank-owned life insurance	280,067	272,546
Other real estate owned	57	173
Goodwill and other intangibles	14,298	15,195
Other assets	389,706	298,052
Total assets	$ 18,439,248	$ 11,520,717
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 2,356,998	$ 1,343,391
Interest bearing	8,952,931	7,305,545
Total deposits	11,309,929	8,648,936
Federal funds purchased	250,000	538,000
FHLB advances	850,000	850,000
Other borrowings	124,037	123,630
Subordinated debt	181,394	181,115
FRB PPP Liquidity Facility	4,415,016	—
Accrued interest payable and other liabilities	191,786	126,241
Total liabilities	17,322,162	10,467,922
Commitments and contingencies (NOTE 21)		
Shareholders' equity:		
Preferred stock, par value $1.00 per share; liquidation preference $25.00 per share; 100,000,000 shares authorized, 9,000,000 shares issued and outstanding as of December 31, 2020 and 2019	217,471	217,471
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 32,985,707 and 32,617,410 shares issued as of December 31, 2020 and 2019; 31,705,088 and 31,336,791 shares outstanding as of December 31, 2020 and 2019	32,986	32,617
Additional paid in capital	455,592	444,218
Retained earnings	438,581	381,519
Accumulated other comprehensive loss, net	(5,764)	(1,250)
Treasury stock, at cost (1,280,619 shares as of December 31, 2020 and 2019)	(21,780)	(21,780)
Total shareholders' equity	1,117,086	1,052,795
Total liabilities and shareholders' equity	$ 18,439,248	$ 11,520,717

See accompanying notes to the consolidated financial statements.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands, except per share data)

	For the Years Ended December 31, 2020	2019	2018
Interest income:			
Loans and leases	$ 512,048	$ 431,491	$ 373,234
Investment securities	24,206	23,713	33,209
Other	7,050	8,535	11,508
Total interest income	543,304	463,739	417,951
Interest expense:			
Deposits	92,045	141,464	110,808
FHLB advances	21,637	26,519	31,043
Subordinated debt	10,755	6,983	6,737
FRB PPP liquidity facility, federal funds purchased and other borrowings	15,179	11,463	11,486
Total interest expense	139,616	186,429	160,074
Net interest income	403,688	277,310	257,877
Provision for credit losses on loans and leases	62,774	24,227	5,642
Net interest income after provision for credit losses on loans and leases	340,914	253,083	252,235
Non-interest income:			
Interchange and card revenue	21,039	28,941	30,695
Deposit fees	13,835	12,815	7,824
Commercial lease income	18,139	12,051	5,354
Bank-owned life insurance	7,009	7,272	7,620
Mortgage warehouse transactional fees	11,535	7,128	7,158
Gain (loss) on sale of SBA and other loans	2,009	2,770	3,294
Mortgage banking income	1,693	66	606
Loss upon acquisition of interest-only GNMA securities	—	(7,476)	—
Gain (loss) on sale of investment securities	20,078	1,001	(18,659)
Unrealized gain (loss) on investment securities	1,447	1,299	(1,634)
Other	4,950	15,071	16,740
Total non-interest income	101,734	80,938	58,998
Non-interest expense:			
Salaries and employee benefits	126,008	107,632	104,841
Technology, communication and bank operations	52,865	43,481	44,454
Professional services	26,965	25,109	20,237
Occupancy	12,877	13,098	11,809
Commercial lease depreciation	14,715	9,473	4,388
FDIC assessments, non-income taxes, and regulatory fees	11,661	5,861	8,642
Provision for operating losses	5,281	9,638	5,616
Advertising and promotion	2,223	4,044	2,446
Merger and acquisition related expenses	2,106	100	4,391
Loan workout	3,143	1,687	2,183
Other real estate owned	79	398	449
Other	8,767	11,380	10,723
Total non-interest expense	266,690	231,901	220,179
Income before income tax expense	175,958	102,120	91,054
Income tax expense	43,380	22,793	19,359
Net income	132,578	79,327	71,695
Preferred stock dividends	14,041	14,459	14,459
Net income available to common shareholders	$ 118,537	$ 64,868	$ 57,236
Basic earnings per common share	$ 3.76	$ 2.08	$ 1.81
Diluted earnings per common share	$ 3.74	$ 2.05	$ 1.78

See accompanying notes to the consolidated financial statements.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(amounts in thousands)

	For the Years Ended December 31,		
	2020	2019	2018
Net income	$ 132,578	$ 79,327	$ 71,695
Unrealized gains (losses) on available for sale debt securities:			
Unrealized gains (losses) arising during the period	32,273	49,688	(46,069)
Income tax effect	(8,390)	(12,919)	11,978
Reclassification adjustments for (gains) losses included in net income	(20,078)	(1,001)	18,659
Income tax effect	5,220	260	(4,851)
Net unrealized gains (losses) on available for sale debt securities	9,025	36,028	(20,283)
Unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) arising during the period	(31,772)	(21,157)	1,995
Income tax effect	8,545	5,501	(518)
Reclassification adjustment for (gains) losses included in net income	13,092	1,407	(2,917)
Income tax effect	(3,404)	(366)	758
Net unrealized gains (losses) on cash flow hedges	(13,539)	(14,615)	(682)
Other comprehensive income (loss), net of income tax effect	(4,514)	21,413	(20,965)
Comprehensive income (loss)	$ 128,064	$ 100,740	$ 50,730

See accompanying notes to the consolidated financial statements.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2020, 2019 and 2018
(amounts in thousands, except share data)

	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2017	9,000,000	$ 217,471	31,382,503	$ 31,913	$ 422,096	$ 258,076	$ (359)	$ (8,233)	$ 920,964
Reclassification of the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive loss	—	—	—	—	—	298	(298)	—	—
Reclassification of net unrealized gains on equity securities from accumulated other comprehensive loss	—	—	—	—	—	1,041	(1,041)	—	—
Net income	—	—	—	—	—	71,695	—	—	71,695
Other comprehensive income (loss)	—	—	—	—	—	—	(20,965)	—	(20,965)
Preferred stock dividends(1)	—	—	—	—	—	(14,459)	—	—	(14,459)
Share-based compensation expense	—	—	—	—	8,605	—	—	—	8,605
Exercise of warrants	—	—	5,242	5	107	—	—	—	112
Issuance of common stock under share-based-compensation arrangements	—	—	334,483	334	3,506	—	—	—	3,840
Repurchase of common shares	—	—	(719,200)	—	—	—	—	(12,976)	(12,976)
Balance, December 31, 2018	9,000,000	217,471	31,003,028	32,252	434,314	316,651	(22,663)	(21,209)	956,816
Net income	—	—	—	—	—	79,327	—	—	79,327
Other comprehensive income (loss)	—	—	—	—	—	—	21,413	—	21,413
Preferred stock dividends(1)	—	—	—	—	—	(14,459)	—	—	(14,459)
Share-based compensation expense	—	—	—	—	8,898	—	—	—	8,898
Issuance of common stock under share-based-compensation arrangements	—	—	364,922	365	1,006	—	—	—	1,371
Repurchase of common shares	—	—	(31,159)	—	—	—	—	(571)	(571)
Balance, December 31, 2019	9,000,000	217,471	31,336,791	32,617	444,218	381,519	(1,250)	(21,780)	1,052,795
Cumulative effect from change in accounting principle - CECL	—	—	—	—	—	(61,475)	—	—	(61,475)
Net income	—	—	—	—	—	132,578	—	—	132,578
Other comprehensive income (loss)	—	—	—	—	—	—	(4,514)	—	(4,514)
Preferred stock dividends(1)	—	—	—	—	—	(14,041)	—	—	(14,041)
Share-based compensation expense	—	—	—	—	12,049	—	—	—	12,049
Issuance of common stock under share-based-compensation arrangements	—	—	368,297	369	(675)	—	—	—	(306)
Balance, December 31, 2020	9,000,000	$ 217,471	31,705,088	$ 32,986	$ 455,592	$ 438,581	$ (5,764)	$ (21,780)	$ 1,117,086

(1) Dividends per share of $1.58, $1.63, $1.61, and $1.50 were declared on Series C, D, E, and F preferred stock for the year ended December 31, 2020. Dividends per share of $1.75, $1.63, $1.61, and $1.50 were declared on Series C, D, E, and F preferred stock for the years ended December 31, 2019, and 2018, respectively.

See accompanying notes to the consolidated financial statements.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	For the Years Ended December 31,		
	2020	2019	2018
Cash Flows from Operating Activities			
Net income	$ 132,578	$ 79,327	$ 71,695
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for credit losses on loans and leases	62,774	24,227	5,642
Depreciation and amortization	30,537	22,879	14,157
Impairment of software	3,721	—	—
Share-based compensation expense	12,883	9,851	9,740
Deferred taxes	(17,966)	14,516	9,303
Net amortization (accretion) of investment securities premiums and discounts	(443)	1,016	1,403
Unrealized (gain) loss on investment securities	(1,447)	(1,299)	1,634
(Gain) loss on sale of investment securities	(20,078)	(1,001)	18,659
Loss upon acquisition of interest-only GNMA securities	—	7,476	—
Fair value adjustment on loans held for sale	2,565	—	—
(Gain) loss on sale of SBA and other loans	(3,558)	(2,804)	(3,913)
Origination of loans held for sale	(74,828)	(48,044)	(31,699)
Proceeds from the sale of loans held for sale	72,999	47,455	32,676
Amortization (accretion) of fair value discounts and premiums	(2,381)	893	194
Net (gain) loss on sales of other real estate owned	50	137	183
Valuation and other adjustments to other real estate owned	—	62	153
Earnings on investment in bank-owned life insurance	(7,009)	(7,272)	(7,620)
(Increase) decrease in accrued interest receivable and other assets	(95,833)	(84,141)	(34,614)
Increase (decrease) in accrued interest payable and other liabilities	38,461	15,002	9,881
Net Cash Provided by (Used in) Operating Activities	133,025	78,280	97,474
Cash Flows from Investing Activities			
Proceeds from maturities, calls and principal repayments on investment securities	236,101	38,709	44,313
Proceeds from sales of investment securities available for sale	387,810	97,555	476,182
Purchases of investment securities available for sale	(1,201,913)	—	(763,242)
Origination of mortgage warehouse loans	(60,948,107)	(31,782,542)	(27,209,330)
Proceeds from repayments of mortgage warehouse loans	59,582,277	30,900,905	27,597,318
Net (increase) decrease in loans and leases, excluding mortgage warehouse loans	(4,220,617)	239,018	59,534
Proceeds from sale of loans and leases	26,362	273,388	110,526
Purchase of loans	(270,959)	(1,167,417)	(397,888)
Proceeds from bank-owned life insurance	—	—	529
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock	12,846	5,471	16,233
Purchases of bank premises and equipment	(4,742)	(1,705)	(1,777)
Proceeds from sales of other real estate owned	97	735	2,213
Purchases of university relationship intangible asset	—	—	(1,502)
Purchases of leased assets under lessor operating leases	(24,124)	(48,552)	(37,207)
Net Cash Provided by (Used in) Investing Activities	(6,424,969)	(1,444,435)	(104,098)
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	2,660,993	1,506,700	342,094
Net increase (decrease) in short-term borrowed funds from the FHLB	—	(748,070)	(363,790)
Net increase (decrease) in federal funds purchased	(288,000)	351,000	32,000
Net increase (decrease) in borrowed funds from PPP liquidity facility	4,415,016	—	—
Proceeds from long-term borrowed funds from the FHLB	—	350,000	—
Proceeds from issuance of subordinated long-term debt	—	72,030	—
Proceeds from issuance of other long-term borrowings	—	24,477	—
Repayments of other borrowings	—	(25,000)	(63,250)
Preferred stock dividends paid	(14,076)	(14,459)	(14,459)
Exercise of warrants	—	—	112
Purchase of treasury stock	—	(571)	(12,976)
Payments of employee taxes withheld from share-based awards	(2,063)	(1,732)	(880)
Proceeds from issuance of common stock	923	2,150	3,585
Net Cash Provided by (Used in) Financing Activities	6,772,793	1,516,525	(77,564)
Net Increase (Decrease) in Cash and Cash Equivalents	480,849	150,370	(84,188)
Cash and Cash Equivalents – Beginning Balance	212,505	62,135	146,323
Cash and Cash Equivalents – Ending Balance	$ 693,354	$ 212,505	$ 62,135

(continued)

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(amounts in thousands)

	For the Years Ended December 31,		
	2020	2019	2018
Supplementary Cash Flow Information:			
Interest paid	$ 131,363	$ 182,596	$ 160,384
Income taxes paid	3,253	7,410	4,794
Noncash Operating and Investing Activities:			
Transfer of loans to other real estate owned	$ 31	$ 291	$ 1,639
Transfer of loans held for investment to held for sale	74,050	499,774	—
Transfer of multi-family loans held for sale to held for investment	401,144	—	129,691
Unsettled purchases of investment securities	2,244	—	—
Acquisition of interest-only GNMA securities securing a mortgage warehouse loan	—	17,157	—
Acquisition of residential reverse mortgage loans securing a mortgage warehouse loan	—	1,325	—

See accompanying notes to the consolidated financial statements.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF THE BUSINESS

Customers Bancorp, Inc. ("Customers Bancorp") is a bank holding company engaged in banking activities through its wholly owned subsidiary, Customers Bank ("the Bank"), collectively referred to as "Customers" herein.

Customers Bancorp and its wholly owned subsidiaries, the Bank, and non-bank subsidiaries, serve residents and businesses in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington, D.C.; Chicago, Illinois; and nationally for certain loan and deposit products. The Bank has 12 full-service branches and provides commercial banking products, primarily loans and deposits. In addition, Customers Bank also administratively supports loan and other financial products, including equipment finance leases, to customers through its limited-purpose offices in Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire; Manhattan, New York; Philadelphia, Pennsylvania; and Chicago, Illinois. The Bank also provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies.

Through BankMobile, a division of Customers Bank, Customers offered state of the art high tech digital banking services to consumers, students, and the "under banked" nationwide, along with "Banking as a Service" offerings with white label partners. The Customers Bancorp's consolidated financial statements as of and for the three years ended December 31, 2020 included the assets and liabilities and financial results of BankMobile. On January 4, 2021, Customers completed the divestiture of BankMobile Technologies, Inc. ("BMT"), a wholly owned subsidiary of Customers Bank and a component of the BankMobile business segment through a merger with Megalith Financial Acquisition Corp. ("MFAC"). In connection with the closing of the divestiture, MFAC changed its name to "BM Technologies, Inc." ("BM Technologies"). Following the completion of the divestiture, BankMobile's installment loans receivable and deposits, and related net interest income are presented in Customers Bancorp's consolidated financial statements in a single reportable segment. Beginning in first quarter 2021, BMT's historical financial results for periods prior to the divestiture will be reflected in Customers Bancorp's consolidated financial statements as discontinued operations. See NOTE 26 – SUBSEQUENT EVENTS for additional information.

The Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank and is periodically examined by those regulatory authorities. Customers Bancorp has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. GAAP and pursuant to the rules and regulations of the SEC. The accounting and reporting policies of Customers Bancorp and subsidiaries are in conformity with U.S. GAAP and predominant practices of the banking industry. The preparation of financial statements requires management to make estimates and assumptions that affect the reported balances of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for credit losses ("ACL") is a material estimate that is particularly susceptible to significant change in the near-term.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Customers Bancorp and its wholly owned subsidiaries, including Customers Bank, CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd., as well as Customers Bank's wholly owned subsidiaries, BankMobile Technologies, Inc., Customers Commercial Finance, LLC ("CCF") and Devon Service PA LLC. All intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents and Statements of Cash Flows

Cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing deposits with banks with a maturity date of three months or less and are recorded at cost. The carrying value of cash and cash equivalents is a reasonable estimate of its approximate fair value. Changes in the balances of cash and cash equivalents are reported on the consolidated statements of cash flows. Cash receipts from the repayment or sale of loans are classified within the statement of cash flows based on management's original intent upon origination of the loan, as prescribed by accounting guidance related to the statement of cash flows. Commercial mortgage warehouse loans are classified as held for investment and presented at "Loans receivable, mortgage warehouse, at fair value" on the consolidated balance sheets and the cash flow activities associated with these commercial mortgage warehouse lending activities are reported as investing activities on the consolidated statements of cash flows.

Restrictions on Cash and Amounts due from Banks

The Bank is usually required to maintain average balances at a certain level of cash and amounts on deposit with the Federal Reserve Bank. Because of the COVID-19 pandemic, the Federal Reserve temporarily waived this requirement beginning in 2020. Customers Bank generally maintains balances in excess of the required levels at the Federal Reserve Bank. At December 31, 2020 and 2019, these required reserve balances were zero and $69.1 million, respectively.

Business Combinations

Business combinations are accounted for by applying the acquisition method in accordance with ASC 805, *Business Combinations*. Under the acquisition method, identifiable assets acquired and liabilities assumed are measured at their fair values as of the date of acquisition and are recognized separately from goodwill. The results of operations of the acquired entity are included in the consolidated statement of income from the date of acquisition. Customers recognizes goodwill when the acquisition price exceeds the estimated fair value of the net assets acquired.

Investment Securities

Customers purchases securities, largely agency-guaranteed mortgage-backed securities and collateralized mortgage obligations, corporate notes and asset-backed securities, to effectively utilize cash and capital, maintain liquidity and to generate earnings. Security transactions are recorded as of the trade date. Debt securities are classified at the time of acquisition as available-for-sale ("AFS"), held-to-maturity ("HTM") or trading, and their classification determines the accounting as follows:

Available for sale: Investment securities classified as AFS are those debt securities that Customers intends to hold for an indefinite period of time but not necessarily to maturity. Investment securities classified as AFS are carried at fair value. Unrealized gains or losses are reported as increases or decreases in accumulated other comprehensive income ("AOCI"), net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings and recorded on the trade date. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

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

Changes in the ACL on AFS securities are recorded as provision, or reversal of provision for credit losses on AFS securities in other non-interest income within the consolidated income statement. Losses are charged against the ACL on AFS securities when management believes the uncollectibility of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on AFS debt securities totaled $4.2 million at December 31, 2020 and is excluded from the estimate of credit losses.

Interest-only GNMA securities: On June 28, 2019, Customers obtained ownership of certain interest-only GNMA securities that served as the primary collateral for loans made to one commercial mortgage warehouse customer through a Uniform Commercial Code private sale transaction, as further described in NOTE 5 – INVESTMENT SECURITIES. Upon acquisition, Customers elected the fair value option for these interest-only GNMA securities, with changes in fair value reported as unrealized gain (loss) on investment securities within non-interest income. The fair value of these securities at December 31, 2019 was $16.3 million. These securities were sold for $15.4 million with a realized gain of $1.0 million during the year ended December 31, 2020.

Held to maturity: Investment securities classified as HTM are those debt securities that Customers has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These securities are carried at cost, adjusted for the amortization of premiums and accretion of discounts, computed by a method which approximates the interest method over the terms of the securities. ACL on HTM securities is a contra-asset valuation account, calculated in accordance with the Accounting Standards Codification ("ASC") 326, Financial Instruments - Credit Losses ("ASC 326"), that is deducted from the amortized cost basis of HTM securities to present management's best estimate of the net amount expected to be collected. HTM securities are charged-off against the allowance when deemed uncollectible by management. Adjustments to the ACL will be reported in the income statement as a component of provision, or reversal of provision for credit losses on HTM securities in other non-interest income within the consolidated income statement. The expected credit losses on HTM securities are determined on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. There were no securities classified as HTM as of December 31, 2020 and 2019.

Equity securities: Equity securities are carried at their fair value, with changes in fair value reported in other non-interest income beginning in 2018. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments.

On January 1, 2018, Customers adopted the new accounting standard for financial instruments, which requires equity securities to be measured at fair value, except those accounted for under the equity method of accounting, with changes in fair value recognized in earnings in the period in which they occur and will no longer be deferred in AOCI. The adoption of this guidance resulted in a $1.0 million increase to beginning retained earnings and a $1.0 million decrease to beginning AOCI.

Loan Accounting Framework

The accounting for a loan depends on management’s strategy for the loan and on whether the loan was credit impaired at the date of acquisition. The Bank accounts for loans based on the following categories:

- Loans held for sale,
- Loans at fair value,
- Loans receivable and
- Purchased credit-deteriorated loans.

The discussion that follows describes the accounting for loans in these categories.

Loans Held for Sale and Loans at Fair Value

Loans originated or purchased by Customers with the intent to sell them in the secondary market are carried either at the lower of cost or fair value, determined in the aggregate, or at fair value, depending upon an election made at the time the loan is originated or purchased. These loans are generally sold on a non-recourse basis with servicing released. Gains and losses on the sale of loans accounted for at the lower of cost or fair value are recognized in earnings based on the difference between the proceeds received and the carrying amount of the loans, inclusive of deferred origination fees and costs, if any.

As a result of changes in events and circumstances or developments regarding management’s view of the foreseeable future, loans not originated or purchased with the intent to sell may subsequently be designated as held for sale. These loans are transferred to the held-for-sale portfolio at the lower of amortized cost or fair value. When the amortized cost of the loan exceeds its fair value at the date of transfer to the held-for-sale portfolio, the excess will be recognized as a charge against the ACL to the extent the loan's reduction in fair value has already been provided for in the ACL. Any subsequent lower of cost or fair value adjustments are recognized as a valuation allowance with charges recognized in non-interest income. If it is determined that a loan should be transferred from held for sale to held for investment, the loan is transferred at the lower of cost or fair value on the transfer date, which coincides with the date of change in management’s intent. The difference between the carrying value of the loan and the fair value, if lower, is reflected as a loan discount at the transfer date, which reduces its carrying value. Subsequent to the transfer, the discount is accreted into earnings as an increase to interest income over the life of the loan using the effective interest method.

Loans originated or purchased by Customers with the intent to sell them for which fair value accounting is elected are reported at fair value, with changes in fair value recognized in earnings in the period in which they occur. Upon sale, any difference between the proceeds received and the carrying amount of the loan is recognized in earnings. No fees or costs related to such loans are deferred, so they do not affect the gain or loss calculation at the time of sale.

An ACL is not maintained on loans designated as held for sale or reported at fair value.

Loans Receivable - Mortgage Warehouse, at Fair Value

Certain mortgage warehouse lending transactions subject to master repurchase agreements are reported at fair value based on an election made to account for the loans at fair value. Pursuant to these agreements, Customers funds the pipelines for these mortgage lenders by sending payments directly to the closing agents for funded loans and receives proceeds directly from third party investors when the loans are sold into the secondary market. Commercial mortgage warehouse loans are classified as held for investment and presented as "Loans receivable, mortgage warehouse, at fair value" on the consolidated balance sheets.

An ACL is not maintained on loans reported at fair value.

Loans Receivable, PPP

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law and contained substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic and stimulate the economy. The CARES Act includes the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") designed to aid small-and medium-sized businesses through federally guaranteed loans distributed through banks. Customers is a participant in the PPP. For additional information about the accounting for PPP loans refer to "Accounting and Reporting Considerations related to COVID-19, *Accounting for PPP Loans"* section below.

Loans and Leases Receivable

Loans and leases receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances, net of an ACL and any deferred fees. Interest income is accrued on the unpaid principal balance. Loan and lease origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to the yield (interest income) of the related loans and leases using the level-yield method without anticipating prepayments. Customers is amortizing these amounts over the contractual life of the loans and leases.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or when management has doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan or lease may remain on accrual status if it is in the process of collection and is well secured. When a loan or lease is placed on non-accrual status, unpaid accrued interest previously credited to income is reversed. Interest received on non-accrual loans and leases is generally applied against principal until all principal has been recovered. Thereafter, payments are recognized as interest income until all unpaid amounts have been received. Generally, loans and leases are restored to accrual status when the loan is brought current and has performed in accordance with the contractual terms for a minimum of six months, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Purchased Credit-Deteriorated Loans and Leases

Purchased credit-deteriorated ("PCD") assets are acquired individual loans and leases (or acquired groups of loans and leases with similar risk characteristics) that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. PCD loans and leases are recorded at their purchase price plus the ACL expected at the time of acquisition, or "gross up" of the amortized cost basis. The January 1, 2020 transition adjustment related to the adoption of ASC 326, discussed below, was established for these loans and leases without affecting the income statement or retained earnings. Changes in the current estimate of the ACL after acquisition from the estimated allowance previously recorded are reported in the income statement as provision for credit losses or reversal of provision for credit losses in subsequent periods as they arise. Purchased loans or leases that do not qualify as PCD assets are accounted for similar to originated assets, whereby an ACL is recognized with a corresponding increase to the income statement provision for credit losses. Evidence that purchased loans and leases, measured at amortized cost, have more-than-insignificant deterioration in credit quality since origination and, therefore meet the PCD definition, may include loans and leases that are past-due, in non-accrual status, poor borrower credit score, recent loan-to-value percentages and other standard indicators (i.e., troubled debt restructurings, charge-offs, bankruptcy).

Allowance for Credit Losses

The ACL is a valuation account that is deducted from the loan or lease's amortized cost basis to present the net amount expected to be collected on the loans and leases. Loans and leases deemed to be uncollectible are charged against the ACL on loans and leases, and subsequent recoveries, if any, are credited to the ACL on loans and leases. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Changes to the ACL on loans and leases are recorded through the provision for credit losses on loans and leases. The ACL on loans and leases is maintained at a level considered appropriate to absorb expected credit losses over the expected life of the portfolio as of the reporting date.

The ACL on loans and leases is measured on a collective (pool) basis when similar risk characteristics exist. Customers' loan portfolio segments include commercial and consumer. Each of these two loan portfolio segments is comprised of multiple loan classes. Loan classes are characterized by similarities in loan type, collateral type, risk attributes and the manner in which credit risk is assessed and monitored. The commercial segment is composed of multi-family, commercial and industrial, commercial real estate owner occupied, commercial real estate non-owner occupied and construction loan classes. The consumer segment is composed of residential real estate, manufactured housing and installment loan classes. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For individually assessed loans, see related details in the Individually Assessed Loans section below.

The ACL on collectively assessed loans and leases is measured over the expected life of the loan or lease using lifetime loss rate models which consider historical loan performance, loan or borrower attributes and forecasts of future economic conditions in addition to information about past events and current conditions. Significant loan/borrower attributes utilized in the models include origination date, maturity date, collateral property type, internal risk rating, delinquency status, borrower state and FICO score at origination. Customers uses external sources in the creation of its forecasts, including current economic conditions and forecasts for macroeconomic variables over its reasonable and supportable forecast period (e.g., GDP growth rate, unemployment rate, BBB spread, commercial real estate and home price index). After the reasonable and supportable forecast period, which ranges from two to five years, the models revert the forecasted macroeconomic variables to their historical long-term trends, without specific predictions for the economy, over the expected life of the pool. For certain loan portfolios with limited historical loss experience, Customers calibrates the modelled lifetime loss rates to peer or industry information. The lifetime loss rate models also incorporate prepayment assumptions into estimated lifetime loss rates. Customers runs the current expected credit losses ("CECL") impairment models on a quarterly basis and qualitatively adjusts model results for risk factors that are not considered within the models but which are relevant in assessing the expected credit losses within the loan and lease pools. Management generally considers the following qualitative factors:

- Volume and severity of past-due loans, non-accrual loans and classified loans;
- Lending policies and procedures, including underwriting standards and historically based loss/collection, charge-off and recovery practices;
- Nature and volume of the portfolio;
- Existence and effect of any credit concentrations and changes in the level of such concentrations;
- Risk ratings;
- The value of the underlying collateral for loans that are not collateral dependent;
- Changes in the quality of the loan review system;
- Experience, ability and depth of lending management and staff;
- Other external factors, such as changes in the legal, regulatory or competitive environment; and
- Model and data limitations.

Customers also qualitatively adjusts the model results for any uncertainty related to the economic forecasts used in the modeled credit loss estimates using multiple alternative scenarios to arrive at a composite scenario supporting the period-end ACL balance. This approach utilizes weighting of the differences between the forecasted baseline and upside and downside scenarios. Customers has elected to not estimate an ACL on accrued interest receivable, as it already has a policy in place to reverse or write-off accrued interest, through interest income, in a timely manner. Accrued interest receivable is presented as a separate financial statement line item in the consolidated balance sheet.

The discussion that follows describes Customers' underwriting policies for its primary lending activities and its credit monitoring and charge-off practices.

Commercial and industrial loans and leases are underwritten after evaluating historical and projected profitability and cash flow to determine the borrower’s ability to repay its obligation as agreed. Commercial and industrial loans and leases are made primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral supporting the loan or lease facility. Accordingly, the repayment of a commercial and industrial loan or lease depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Construction loans are underwritten based upon a financial analysis of the developers and property owners and construction cost estimates, in addition to independent appraisal valuations. These loans rely on the value associated with the project upon completion. The cost and valuation amounts used are estimates and may be inaccurate. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project. Sources of repayment of these loans would be permanent financing upon completion or sales of the developed property. These loans are closely monitored by on-site inspections and are considered to be of a higher risk than other real estate loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term financing, interest-rate sensitivity and governmental regulation of real property.

Commercial real estate and multi-family loans are subject to the underwriting standards and processes similar to commercial and industrial loans, in addition to those underwriting standards for real estate loans. These loans are viewed primarily as cash flow dependent and secondarily as loans secured by real estate. Repayment of these loans is generally dependent upon the successful operation of the property securing the loan, or the principal business conducted on the property securing the loan, to generate sufficient cash flows to service the debt. In addition, the underwriting considers the amount of the principal advanced relative to the property value. Commercial real estate and multi-family loans may be adversely affected by conditions in the real estate markets or the economy in general. Management monitors and evaluates commercial real estate and multi-family loans based on cash flow estimates, collateral valuation and risk-rating criteria. Customers also utilizes third-party experts to provide environmental and market valuations. Substantial effort is required to underwrite, monitor and evaluate commercial real estate and multi-family loans.

Residential real estate loans are secured by one-to-four dwelling units. This group is further divided into first mortgage and home equity loans. First mortgages are originated at a loan to value ratio of 80% or less. Home equity loans have additional risks as a result of typically being in a second position or lower in the event collateral is liquidated.

Manufactured housing loans are loans that are secured by the manufactured housing unit where the borrower may or may not own the underlying real estate and therefore have a higher risk than a residential real estate loan.

Installment loans consist primarily of unsecured loans to individuals which are originated through Customers' retail network or acquired through purchases from third parties, primarily market place lenders. None of the loans are sub-prime at the time of origination. Customers considers sub-prime borrowers to be those with FICO scores below 660. Installment loans have a greater credit risk than residential loans because of the difference in the underlying collateral, if any. The application of various federal and state bankruptcy and insolvency laws may limit the amount that can be recovered on such loans.

Delinquency status and other borrower characteristics are used to monitor loans and leases and identify credit risks, and the general reserves are established based on the expected incurred net charge-offs, adjusted for qualitative factors.

Charge-offs on commercial and industrial, construction, multi-family and commercial real estate loans and leases are recorded when management estimates that there are insufficient cash flows to repay the contractual loan obligation based upon financial information available and valuation of the underlying collateral. Shortfalls in the underlying collateral value for loans or leases determined to be collateral dependent are charged-off immediately.

Customers also takes into account the strength of any guarantees and the ability of the borrower to provide value related to those guarantees in determining the ultimate charge-off or allowance associated with an impaired loan or lease. Accordingly, Customers may charge-off a loan or lease to a value below the net appraised value if it believes that an expeditious liquidation is desirable under the circumstance, and it has legitimate offers or other indications of interest to support a value that is less than the net appraised value. Alternatively, Customers may carry a loan or lease at a value that is in excess of the appraised value in certain circumstances, such as when Customers has a guarantee from a borrower that Customers believes has realizable value. In evaluating the strength of any guarantee, Customers evaluates the financial wherewithal of the guarantor, the guarantor's reputation and the guarantor's willingness and desire to work with Customers. Customers then conducts a review of the strength of the guarantee on a frequency established as the circumstances and conditions of the borrower warrant.

Customers records charge-offs for residential real estate, installment and manufactured housing loans after 120 days of delinquency or sooner when cash flows are determined to be insufficient for repayment. Customers may also charge-off these loans below the net appraised valuation if Customers holds a junior-mortgage position in a piece of collateral whereby the risk to acquiring control of the property through the purchase of the senior-mortgage position is deemed to potentially increase the risk of loss upon liquidation due to the amount of time to ultimately sell the property and the volatile market conditions. In such cases, Customers may abandon its junior mortgage and charge-off the loan balance in full.

Credit Quality Factors

Commercial and industrial, multi-family, commercial real estate and construction loans and leases are each assigned a numerical rating of risk based on an internal risk-rating system. The risk rating is assigned at loan origination and indicates management's estimate of credit quality. Risk ratings are reviewed on a periodic or "as needed" basis. Residential real estate, manufactured housing and installment loans are evaluated primarily based on payment activity of the loan. Risk ratings are not established for residential real estate, home equity loans, manufactured housing loans, and installment loans, mainly because these portfolios consist of a larger number of homogeneous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based on aggregate payment history (through the monitoring of delinquency levels and trends). For additional information about credit quality risk ratings refer to NOTE 7 – LOANS AND LEASES RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES.

Allowance for Credit Losses on Lending-Related Commitments

Customers estimates expected credit losses over the contractual period in which it is exposed to credit risk on contractual obligations to extend credit, unless the obligation is unconditionally cancellable by Customers. The ACL on lending-related commitments is recorded in accrued interest payable and other liabilities in the consolidated balance sheet and is recorded as a provision for credit losses within other non-interest expense in the consolidated income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over their estimated lives. Customers estimates the expected credit losses for undrawn commitments using a usage given default calculation. The lifetime loss rates for off-balance sheet credit exposures are calculated in the same manner as on-balance sheet credit exposures, using the same models and economic forecasts, adjusted for the estimated likelihood that funding will occur. Please refer to Note 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK for additional information regarding Customers' ACL on lending related commitments.

Individually Assessed Loans and Leases

ASC 326 provides that a loan or lease is measured individually if it does not share similar risk characteristics with other financial assets. For Customers, loans and leases which are identified to be individually assessed under CECL typically would have been evaluated individually as impaired loans using accounting guidance in effect in periods prior to the adoption of CECL and include troubled debt restructurings and collateral dependent loans. Factors considered by management in its assessment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan or lease and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. For commercial and construction loans, the ACL is generally determined using the present value of expected future cash flows discounted at the loan's original effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. The fair value of the collateral is measured based on the value of the collateral securing the loans, less estimated costs to liquidate the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of Customers' collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, third-party licensed appraiser using comparable market data. The value of business equipment is based upon an outside appraisal if deemed significant or the net book value on the applicable business' financial statements if not considered significant, using comparable market data. Similarly, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports.

Troubled Debt Restructurings

A loan for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties is considered to be a troubled debt restructuring ("TDR"). The ACL on a TDR is measured using the same method as all other loans held for investment, except in cases when the value of a concession cannot be measured using a method other than the discounted cash flow ("DCF") method. When the value of a concession is measured using the DCF method, the ACL is determined by discounting the expected future cash flows at the original effective interest rate of the loan.

The CARES Act, as amended, and certain regulatory agencies recently issued guidance stating certain loan modifications to borrowers experiencing financial distress as a result of the economic impacts created by COVID-19 may not be required to be treated as TDRs under U.S GAAP. For COVID-19 related loan modifications which met the loan modification criteria under either the CARES Act, as amended, or the criteria specified by the regulatory agencies, Customers elected to suspend TDR accounting for such loan modifications.

Collateral Dependent Loans

Customers considers a loan to be collateral dependent when foreclosure of the underlying collateral is probable. Customers has also elected to apply the practical expedient to measure expected credit losses of a collateral dependent asset using the fair value of the collateral, less any estimated costs to sell, when foreclosure is not probable but repayment of the loan is expected to be provided substantially through the operation or sale of the collateral, and the borrower is experiencing financial difficulty.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the identifiable net assets of businesses acquired through business combinations accounted for under the acquisition method. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as customer and university relationships and non-compete agreements, are amortized over their estimated useful lives and are subject to impairment testing.

Goodwill and indefinite-lived intangible assets are reviewed for impairment annually as of October 31 and between annual tests when events and circumstances indicate that impairment may have occurred. If there is a goodwill impairment charge, it will be the amount by which the reporting unit's carrying amount exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The same annual impairment test is applied to goodwill at all reporting units. Customers applies a qualitative assessment for its reporting units to determine if the one-step quantitative impairment test is necessary.

Intangible assets subject to amortization are reviewed for impairment under ASC 360, *Property, Plant, and Equipment,* which requires that a long-lived asset or asset group be tested for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

As part of its qualitative assessment, Customers reviewed regional and national trends in current and expected economic conditions, examining indicators such as GDP growth, interest rates and unemployment rates. Customers also considered its own historical performance, expectations of future performance, indicative deal values and other trends specific to the banking and financial technology industries. Based on its qualitative assessment, Customers determined that there was no evidence of impairment on the balance of goodwill and other intangible assets. As of December 31, 2020 and 2019, goodwill and other intangible assets totaled $14.3 million and $15.2 million, respectively.

FHLB, Federal Reserve Bank and other restricted stock

FHLB, Federal Reserve Bank and other restricted stock represents required investment in the capital stock of the FHLB, the Federal Reserve Bank and Atlantic Community Bankers Bank and is carried at cost. Total restricted stock as of December 31, 2020 and 2019, was $71.4 million and $84.2 million, respectively, which included $46.1 million and $60.8 million, respectively, of FHLB stock.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by third-party appraisers, and the real estate is carried at the lower of its carrying amount or fair value less estimated costs to sell. Any declines in the fair value of the real estate properties below the initial cost basis are recorded through a valuation allowance. Increases in the fair value of the real estate properties net of estimated selling costs will reverse the valuation allowance but only up to the costs basis which was established at the initial measurement date. Revenue and expenses from operations and changes in the valuation allowance are included in earnings.

Bank-Owned Life Insurance

Bank-owned life insurance ("BOLI") policies insure the lives of officers of Customers and name Customers as beneficiary. Non-interest income is generated tax free (subject to certain limitations) from the increase in value of the policies' underlying investments made by the insurance company. Cash proceeds received from the settlement of the BOLI policies are tax-free and can be used to partially offset costs associated with employee compensation and benefit programs.

Bank Premises and Equipment

Bank premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the term of the lease or estimated useful life, unless extension of the lease term is reasonably assured.

Lessor Operating Leases

Leased assets under operating leases are carried at amortized cost net of accumulated depreciation and any impairment charges. The depreciation expense of the leased assets is recognized on a straight-line basis over the contractual term of the leases up to their expected residual value. The expected residual value and, accordingly, the monthly depreciation expense, may change throughout the term of the lease. Operating lease rental income for leased assets is recognized in other non-interest income on a straight-line basis over the lease term. Customers periodically reviews its leased assets for impairment. An impairment loss is recognized if the carrying amount of the leased asset exceeds its fair value and is not recoverable. The carrying amount of leased assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the leased asset.

Lessee Operating Leases

A right-of-use ("ROU") asset and corresponding lease liability is recognized at the lease commencement date when Customers is a lessee. ROU lease assets are included in other assets on the consolidated balance sheet. A ROU asset reflects the present value of the future minimum lease payments adjusted for any initial direct costs, incentives, or other payments prior to the lease commencement date. A lease liability represents a legal obligation to make lease payments and is determined by the present value of the future minimum lease payments discounted using the rate implicit in the lease, or Customers' incremental borrowing rate. Variable lease payments that are dependent on an index, or rate, are initially measured using the index or rate at the commencement date and are included in the measurement of the lease liability. Renewal options are not included as part of the ROU asset or lease liability unless the option is deemed reasonably certain to exercise. Operating lease expense is comprised of operating lease costs and variable lease costs, net of sublease income, and is reflected as part of occupancy expense within non-interest expense in the consolidated statement of income. Operating lease expense is recorded on a straight-line basis. See NOTE 8 – LEASES for additional information.

Treasury Stock

Common stock purchased for treasury is recorded at cost.

Income Taxes

Customers accounts for income taxes under the liability method of accounting for income taxes. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Customers determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

A tax position is recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the term upon examination includes resolution of the related appeals or litigation process. A tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

In assessing the realizability of federal or state deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and prudent, feasible and permissible as well as available tax planning strategies in making this assessment. See NOTE 15 – INCOME TAXES for additional information.

Share-Based Compensation

Customers has four share-based compensation plans. Share-based-compensation accounting guidance requires that the compensation cost relating to share-based-payment transactions be recognized in earnings. The cost is measured based on the grant-date fair value of the equity instruments issued. The Black-Scholes model is used to estimate the fair value of stock options, while the closing market price of Customers' common stock on the date of grant is used for restricted stock awards.

Compensation cost for all share-based awards is calculated and recognized over the team member's service period, defined as the vesting period. For performance-based awards, compensation cost is recognized over the vesting period as long as it remains probable that the performance conditions will be met. If the service or performance conditions are not met, Customers reverses previously recorded compensation expense upon forfeiture. Customers' accounting policy election is to recognize forfeitures as they occur.

In 2014, the shareholders of Customers Bancorp approved an Employee Stock Purchase Plan ("ESPP"). Because the purchase price under the plan is 85% (a 15% discount to the market price) of the fair market value of a share of common stock on the first day of each quarterly subscription period, the plan is considered to be a compensatory plan under current accounting guidance. Therefore, the entire amount of the discount is recognizable compensation expense. See NOTE 14 – SHARE-BASED COMPENSATION for additional information.

Transfers of Financial Assets

Transfers of financial assets, including loan participations sold, are accounted for as sales when control over the assets has been surrendered (settlement date). Control over transferred assets is generally considered to have been surrendered when (i) the assets have been isolated from Customers, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) Customers does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. If the sale criteria are met, the transferred financial assets are removed from Customers' balance sheet, and a gain or loss on sale is recognized. If the sale criteria are not met, the transfer is recorded as a secured borrowing with the assets remaining on Customers' balance sheet, and the proceeds received from the transaction recognized as a liability.

Segment Information

Customers' chief operating decision makers allocate resources and assess performance for two distinct business segments, "Customers Bank Business Banking" and "BankMobile." The Customers Bank Business Banking segment is delivered predominately to commercial customers in Southeastern Pennsylvania, New York, New Jersey, Massachusetts, Rhode Island, New Hampshire, Washington, D.C., and Illinois through a single point of contact business model and provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. The BankMobile segment provides state-of-the-art high-tech digital banking and disbursement services to consumers, students and the "under banked" nationwide, along with "Banking as a Service" offerings with existing and potential white label partners. BankMobile, as a division of Customers Bank, is a full service bank that is accessible to customers anywhere and anytime through the customer's smartphone or other web-enabled device. Additional information regarding reportable segments can be found in NOTE 24 – BUSINESS SEGMENTS.

Derivative Instruments and Hedging

ASC 815, *Derivatives and Hedging* ("ASC 815") provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments, (ii) how the entity accounts for derivative instruments and the related hedged items and (c) how derivative instruments and the related hedged items affect an entity's financial position, financial performance and cash flows. Further, qualitative disclosures are required that explain the objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, Customers records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether Customers has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as hedges of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest-rate risk, are considered fair value hedges. Derivatives designated and qualifying as hedges of the exposure to variability in expected future cash flows or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. In addition, to qualify for the use of hedge accounting, a derivative must be effective at inception and expected to be continuously effective in offsetting the risk being hedged. Customers may enter into derivative contracts that are intended to economically hedge certain of its risks; even though hedge accounting does not apply, or Customers elects not to apply hedge accounting.

Customers entered into pay-fixed interest-rate swaps to hedge the variable cash flows associated with the forecasted issuance of debt and a certain variable rate deposit relationship. Customers documented and designated these interest-rate swaps as cash flow hedges. The effective portion of changes in the fair value of financial derivatives designated and qualifying as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the financial derivatives is also recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive income (loss) related to financial derivatives will be reclassified to interest expense as interest payments are made on Customers' variable-rate debt. As of December 31, 2020, Customers had five financial derivatives designated in qualifying cash flow hedge relationships with a notional aggregate balance of $1.1 billion. As of December 31, 2019, Customers had four financial derivatives designated in qualifying cash flow hedge relationships with a notional aggregate balance of $725.0 million.

In November 2020, Customers entered into 24 pay-fixed, receive variable interest rate derivatives with notional amounts totaling $272.3 million designated as fair value hedges of certain available for sale debt securities. The Company is exposed to changes in the fair value of certain of its available-for-sale debt securities due to changes in the benchmark interest rate. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate, the Federal Funds Effective Swap Rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

Customers has also purchased and sold credit derivatives to either hedge or participate in the performance risk associated with some of its counterparties. These derivatives were not designated in hedge relationships for accounting purposes and are being recorded at their fair value, with fair value changes recorded directly in earnings. At December 31, 2020 and 2019, Customers had an outstanding notional balance of credit derivatives of $177.2 million and $167.1 million, respectively.

In accordance with the Financial Accounting Standards Board's ("FASB") fair value measurement guidance, Customers made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. See NOTE 20 - DERIVATIVE INSTRUMENTS for additional information.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes changes in unrealized gains and losses on debt securities available for sale arising during the period and reclassification adjustments for realized gains and losses on debt securities available for sale included in net income. Other comprehensive income (loss) also includes the effective and ineffective portion of changes in fair value of financial derivatives designated and qualifying as cash flow hedges. Cash flow hedge amounts classified as comprehensive income are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

Earnings per Share

Basic EPS represents net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS includes all potentially dilutive common shares outstanding during the period. Potential common shares that may be issued related to outstanding stock options, restricted stock units and warrants are determined using the treasury stock method. The treasury stock method assumes that the proceeds received for common shares that may be issued for outstanding stock options, restricted stock units, and warrants are used to repurchase the common shares in the market.

Loss Contingencies

Loss contingencies, including claims and legal, regulatory and governmental actions and proceedings arise in the ordinary course of business. In accordance with applicable accounting guidance, Customers establishes an accrued liability when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. As facts and circumstances evolve, Customers, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. Once the loss contingency is deemed to be both probable and estimable, Customers will establish an accrued liability and record a corresponding amount of litigation-related expense. Customers continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established.

Collaborative Arrangements

In the normal course of business, Customers may enter into collaborative arrangements primarily to develop and commercialize banking products to its partners' customers. Collaborative arrangements are contractual agreements with third parties that involve a joint operating activity where both Customers and the collaborating partner are active participants in the activity and are exposed to the significant risks and rewards of the activity. Collaborative activities typically include research and development, technology, product development, marketing, and day-to-day operations of the banking product. These arrangements often require the sharing of revenue and expense. Net interest income, non-interest income, and non-interest expenses incurred pursuant to these arrangements are reported net of any payments due to or amounts due from Customers' collaboration partners. Reimbursement of non-interest expenses are reported in other non-interest expense and are recognized at the time the collaborative party becomes obligated to pay.

For the years ended December 31, 2020, 2019 and 2018, net amounts recognized for payments due to or due from collaborative partners for net interest income and non-interest income were not considered material. For the years ended December 31, 2020, 2019 and 2018, Customers recognized $12.6 million, $7.7 million and $8.4 million, respectively, in non-interest expense reimbursements from collaborative arrangements.

Accounting and Reporting Considerations related to COVID-19

On March 27, 2020, the CARES Act was signed into law and contained substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic and stimulate the economy. The CARES Act includes the SBA'a PPP designed to aid small-and medium-sized businesses through federally guaranteed loans distributed through banks. Customers is a participant in the PPP. Section 4013 of the CARES act also gives entities temporary relief from the accounting and disclosure requirements for TDRs under ASC 310-40 in certain situations. On December 27, 2020, the Consolidated Appropriations Act, 2021 ("CAA") was signed into law, which extended and expanded various relief provisions of the CARES Act.

Accounting for PPP Loans

In April 2020, Customers began to originate loans to qualified small businesses under the PPP administered by the SBA. The PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and terms of two or five years, if not forgiven, in whole or in part. Payments are deferred for the first six months of the loan. The loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1% to 5% based on the size of the loan. Customers classified the PPP loans as held for investment and these loans are carried at amortized cost and interest income is recognized using the interest method. The origination fees, net of direct origination costs, are deferred and recognized as an adjustment to the yield of the related loans over their contractual life using the interest method. As PPP is newly created, Customers does not have historical prepayment data to accurately estimate principal prepayments and therefore has elected to not estimate prepayments as a policy election. No ACL has been recognized for PPP loans as these loans are 100% guaranteed by the SBA. See NOTE 7 – LOANS AND LEASES RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES ON LOANS AND LEASES for additional information.

Loan Modifications

As mentioned above, Section 4013 of the CARES Act, as amended by the CAA, gives entities temporary relief from the accounting and disclosure requirements for TDRs. In addition, on April 7, 2020, certain regulatory banking agencies issued an interagency statement that offers practical expedients for evaluating whether loan modifications in response to the COVID-19 pandemic are TDRs. To qualify for TDR accounting and disclosure relief under the CARES Act, as amended by the CAA, the applicable loan must not have been more than 30 days past due as of December 31, 2019 and the modification must be executed during the period beginning on March 1, 2020, and ending on the earlier of January 1, 2022, or the date that is 60 days after the termination date of the national emergency declared by the president on March 13, 2020, under the National Emergencies Act related to the outbreak of COVID-19. The CARES Act applies to modifications made as a result of COVID-19 including: forbearance agreements, interest rate modifications, repayment plans, and other arrangements to defer or delay payment of principal or interest. The interagency statement does not require the modification to be completed within a certain time period if it is related to COVID-19 and can be provided to borrowers either individually or as part of a loan modification program. Moreover, the interagency statement applies to short-term modifications (e.g. not more than six months deferral) including payment deferrals, fee waivers, extensions of repayment terms, or other insignificant payment delays as a result of COVID-19.

Customers applied Section 4013 of the CARES Act, as amended, and the interagency statement in connection with applicable modifications. For modifications that qualify under either the CARES Act, as amended, or the interagency statement, TDR accounting and reporting is suspended. These modifications generally involve principal and/or interest payment deferrals for a period of 90 days at a time and can be extended to six months or longer for modifications that qualified under the Section 4013 of the CARES Act, as amended, if requested by the borrower as long as the reason is still related to COVID-19. These modified loans would not also be reported as past due or nonaccrual during the deferral period. See NOTE 7 – LOANS AND LEASES RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES ON LOANS AND LEASES for additional information.

Recently Issued Accounting Standards

Presented below are recently issued accounting standards that Customers has adopted.

Accounting Standards adopted in 2020

Allowance for Credit Losses

On January 1, 2020, Customers adopted ASC 326, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and net investments in leases recognized by Customers as a lessor in accordance with ASC 842. CECL also applies to off-balance sheet credit exposures not accounted for as insurance, such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. ASC 326 also made changes to the accounting for AFS debt securities, which now requires credit losses to be presented as an allowance, rather than as a write-down on AFS debt securities that management does not intend to sell or believes that it is more likely than not they will not be required to sell.

Customers adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, net investments in leases, and off-balance sheet credit exposures. Results for reporting periods beginning after December 31, 2019 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. Customers recorded a net decrease to retained earnings of $61.5 million, net of deferred taxes of $21.5 million, as of January 1, 2020 for the cumulative effect of adopting ASC 326. Customers adopted ASC 326 using the prospective transition approach for PCD financial assets that were previously classified as purchased credit-impaired ("PCI") and accounted for under ASC 310-30. In accordance with the standard, Customers did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2020, the amortized cost basis of the PCD assets were adjusted to reflect the addition of $0.2 million of the ACL on PCD loans and leases. The remaining noncredit discount of $0.3 million, based on the adjusted amortized cost basis, will be accreted into interest income at the effective interest rate as of January 1, 2020.

The following table illustrates the impact of adopting ASC 326:

(amounts in thousands)	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption	As Reported Under ASC 326
Assets			
Loans receivable, mortgage warehouse, at fair value	$ 2,245,758	$ —	$ 2,245,758
Loans and leases receivable			
Multi-family	1,907,331	7	1,907,338
Commercial and industrial	1,891,152	3	1,891,155
Commercial real estate owner occupied	551,948	100	552,048
Commercial real estate non-owner occupied	1,222,772	41	1,222,813
Construction	117,617	—	117,617
Total commercial loans and leases receivable	5,690,820	151	5,690,971
Residential real estate	382,634	32	382,666
Manufactured housing	71,359	37	71,396
Installment	1,174,175	12	1,174,187
Total consumer loans receivable	1,628,168	81	1,628,249
Loans and leases receivable	7,318,988	232	7,319,220
Allowance for credit losses on loans and leases	(56,379)	(79,829)	(136,208)
Total loans and leases receivable, net of allowance for credit losses on loans and leases	9,508,367	(79,596)	9,428,771
Liabilities			
Allowance for credit losses on lending-related commitments	49	3,388	3,437
Net deferred tax (asset) liability	11,740	(21,510)	(9,770)
Shareholders' equity			
Retained earnings	$ 381,519	$ (61,475)	$ 320,044

Other Accounting Standards Adopted in 2020

During 2020, Customers adopted the following FASB Accounting Standards Updates ("ASUs"), none of which had a material impact to Customers' consolidated financial statements:

Standard	Summary of guidance	Effects on Financial Statements
ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* Issued April 2019	• Clarifies the scope of the credit losses standard and addresses issues related to accrued interest receivable balances, recoveries, variable interest rates, and prepayments. • Addresses partial-term fair value hedges, fair value hedge basis adjustments and certain transition requirements. • Addresses recognizing and measuring financial instruments, specifically the requirement for remeasurement under ASC 820 when using the measurement alternative, certain disclosure requirements and which equity securities have to be remeasured at historical exchange rates. • Topic 326 Amendments - Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted. Topic 815 Amendments - Effective for first annual period beginning after the issuance date of this ASU (i.e., fiscal year 2020). Entities that have already adopted the amendments in ASU 2017-12 may elect either to retrospectively apply all the amendments or to prospectively apply all amendments as of the date of adoption. Topic 825 Amendments - Effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.	• Customers adopted on January 1, 2020. • The adoption of this guidance relating to Topics 815 and 825 did not have a material impact on Customers' financial condition, results of operations and consolidated financial statements. Please refer to ASU 2016-13 for further discussion on Customers' adoption of ASU 2016-13 (Topic 326).
ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606* Issued November 2018	• Clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of a unit of account. In those situations, all the guidance in Topic 606 should be applied, including recognition, measurement, presentation, and disclosure requirements. • Adds unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within scope of Topic 606. • Requires that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under Topic 606 is precluded if the collaborative arrangement participant is not a customer. • Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted.	• Customers adopted on January 1, 2020. • The adoption of this guidance did not have a material impact on Customers' financial condition, results of operations and consolidated financial statements.

Other Accounting Standards Adopted in 2020 (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2018-15, Internal-Use Software (Subtopic 350-40): Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract Issued August 2018	• Clarifies that service contracts with hosting arrangements must follow internal-use software guidance Subtopic 350-40 when determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense. • Also clarifies that capitalized implementation costs of a hosting arrangement that is a service contract are to be amortized over the term of the hosting arrangement, which includes the noncancelable period of the arrangement plus options to extend the arrangement if reasonably certain to exercise. • Clarifies that existing impairment guidance in Subtopic 350-40 must be applied to the capitalized implementation costs as if they were long-lived assets. • Applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. • Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted.	• Customers adopted on January 1, 2020. • The adoption of this guidance did not have a material impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting* Issued March 2020	• Provides optional guidance for a limited period of time to ease the potential burden in accounting for (or derecognizing the effects of) reference rate reform on financial reporting. Specifically, the amendments provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. These relate only to those contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. • Effective as of March 12, 2020 and can be adopted anytime during the period of January 1, 2020 through December 31, 2022.	• Customers adopted this guidance during adoption period for certain optional expedients. • The adoption of this guidance did not have a material impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2021-01, *Scope* Issued January 2021	• Clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition, including derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. • Effective as of March 12, 2020 and can be adopted anytime during the period of January 1, 2020 through December 31, 2022.	• Customers adopted this guidance during adoption period for certain optional expedients • The adoption of this guidance did not have a material impact on Customers' financial condition, results of operations and consolidated financial statements.

NOTE 3 – EARNINGS PER SHARE

The following are the components and results of Customers' earnings per common share calculations for the periods presented.

	For the Years Ended December 31,		
(amounts in thousands, except share and per share data)	2020	2019	2018
Net income available to common shareholders	$ 118,537	$ 64,868	$ 57,236
Weighted-average number of common shares outstanding – basic	31,506,699	31,183,841	31,570,118
Share-based compensation plans	221,085	462,375	658,739
Warrants	—	—	4,241
Weighted-average number of common shares – diluted	31,727,784	31,646,216	32,233,098
Basic earnings per common share	$ 3.76	$ 2.08	$ 1.81
Diluted earnings per common share	$ 3.74	$ 2.05	$ 1.78

The following are securities that could potentially dilute basic earnings per common share in future periods that were not included in the computation of diluted earnings per common share because either the performance conditions for certain of the share-based compensation awards have not been met or to do so would have been anti-dilutive for the periods presented.

	For the Years Ended December 31,		
	2020	2019	2018
Anti-dilutive securities:			
Share-based compensation awards	828,835	2,172,157	1,138,251

NOTE 4 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

The following table presents the changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2020 and 2019. Amounts in parentheses indicate reductions to accumulated other comprehensive income (loss).

(amounts in thousands)	Unrealized Gains (Losses) on AFS Securities [1]	Unrealized Gains (Losses) on Cash Flow Hedges [2]	Total
Balance, December 31, 2018	$ (21,741)	$ (922)	$ (22,663)
Current period:			
Unrealized gains (losses) arising during period, before tax	49,688	(21,157)	28,531
Income tax effect	(12,919)	5,501	(7,418)
Other comprehensive income (loss) before reclassifications	36,769	(15,656)	21,113
Reclassification adjustments for losses (gains) included in net income, before tax	(1,001)	1,407	406
Income tax effect	260	(366)	(106)
Amounts reclassified from accumulated other comprehensive income (loss) to net income	(741)	1,041	300
Net current-period other comprehensive income (loss)	36,028	(14,615)	21,413
Balance, December 31, 2019	14,287	(15,537)	(1,250)
Current period:			
Unrealized gains (losses) arising during period, before tax	32,273	(31,772)	501
Income tax effect	(8,390)	8,545	155
Other comprehensive income (loss) before reclassifications	23,883	(23,227)	656
Reclassification adjustments for losses (gains) included in net income, before tax	(20,078)	13,092	(6,986)
Income, tax effect	5,220	(3,404)	1,816
Amounts reclassified from accumulated other comprehensive income (loss) to net income	(14,858)	9,688	(5,170)
Net current-period other comprehensive income (loss)	9,025	(13,539)	(4,514)
Balance, December 31, 2020	$ 23,312	$ (29,076)	$ (5,764)

(1) Reclassification amounts for AFS debt securities are reported as gain or loss on sale of investment securities on the consolidated statements of income.

(2) Reclassification amounts for cash flow hedges are reported as interest expense for the applicable hedged items on the consolidated statements of income or other non-interest income on the consolidated statements of income for gains recognized from the discontinuance of cash flow hedge accounting for certain interest rate swaps. No cash flow hedges were discontinued during the years ended December 31, 2020 and 2019.

NOTE 5 – INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of December 31, 2020 and 2019 are summarized as follows:

	December 31, 2020			
(amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale debt securities				
Asset-backed securities	$ 372,640	$ 4,515	$ (10)	$ 377,145
U.S. government agency securities	20,000	34	$ —	20,034
Agency-guaranteed mortgage-backed securities	61,178	1,913	$ —	63,091
Agency-guaranteed collateralized mortgage obligations	160,950	916	(99)	161,767
Collateralized loan obligations	32,367	—	—	32,367
Corporate notes [1]	372,764	24,144	(164)	396,744
Private label collateralized mortgage obligations	136,943	423	(374)	136,992
State and political subdivision debt securities	17,346	945	—	18,291
Available for sale debt securities	$ 1,174,188	$ 32,890	$ (647)	1,206,431
Equity securities [3]				3,854
Total investment securities, at fair value				$ 1,210,285

	December 31, 2019			
(amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale debt securities				
Agency-guaranteed residential mortgage-backed securities	$ 273,252	$ 5,069	$ —	$ 278,321
Corporate notes [1]	284,639	14,238	—	298,877
Available for sale debt securities	$ 557,891	$ 19,307	$ —	577,198
Interest-only GNMA securities [2]				16,272
Equity securities [3]				2,406
Total investment securities, at fair value				$ 595,876

(1) At December 31, 2020 and 2019, includes corporate securities issued by domestic bank holding companies.
(2) Reported at fair value with fair value changes recorded in non-interest income based on fair value option election.
(3) Includes equity securities issued by a foreign entity.

On June 28, 2019, Customers obtained ownership of certain interest-only GNMA securities that served as the primary collateral for loans made to one commercial mortgage warehouse customer through a Uniform Commercial Code private sale transaction. In connection with the acquisition of the interest-only GNMA securities, Customers recognized a pre-tax loss of $7.5 million for the year ended December 31, 2019 for the shortfall in the fair value of the interest-only GNMA securities compared to its credit exposure to this commercial mortgage warehouse customer. Upon acquisition, Customers elected the fair value option for these interest-only GNMA securities. The fair value of these securities at December 31, 2019 was $16.3 million. These securities were sold for $15.4 million with a realized gain of $1.0 million during the year ended December 31, 2020.

During the year ended December 31, 2020, Customers recognized unrealized gains of $1.4 million on its equity securities. During the year ended December 31, 2019, Customers recognized unrealized gains of $1.3 million on its interest-only GNMA securities and equity securities. These unrealized gains and losses are reported as unrealized gain (loss) on investment securities within non-interest income on the consolidated statements of income.

Proceeds from the sale of AFS debt securities were $387.8 million, $97.6 million and $476.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. Realized gains from the sale of AFS debt securities were $20.1 million and $1.0 million for the years ended December 31, 2020 and 2019, respectively. Realized losses from the sale of AFS debt securities were $18.7 million for the year ended December 31, 2018. These gains (losses) were determined using the specific identification method and were reported as gain (loss) on sale of investment securities within non-interest income on the consolidated statements of income.

The following table presents debt securities by stated maturity. Debt securities backed by mortgages and other assets have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay and, therefore, these debt securities are classified separately with no specific maturity date:

	December 31, 2020	
(amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —
Due after one year through five years	93,111	94,169
Due after five years through ten years	295,653	318,588
Due after ten years	21,346	22,312
Asset-backed securities	372,640	377,145
Collateralized loan obligations	32,367	32,367
Agency-guaranteed mortgage-backed securities	61,178	63,091
Private label collateralized mortgage obligations	136,943	136,992
Agency-guaranteed collateralized mortgage obligations	160,950	161,767
Total debt securities	$ 1,174,188	$ 1,206,431

Gross unrealized losses and fair value of Customers' AFS debt securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 were as follows:

	December 31, 2020					
	Less than 12 months		12 months or more		Total	
(amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale debt securities						
Asset-backed Securities	$ 42,588	$ (10)	$ —	$ —	$ 42,588	$ (10)
Agency-guaranteed collateralized mortgage obligations	29,822	(99)	—	—	29,822	(99)
Corporate notes	50,620	(164)	—	—	50,620	(164)
Private label collateralized mortgage obligations	12,549	(374)	—	—	12,549	(374)
Total	$ 135,579	$ (647)	$ —	$ —	$ 135,579	$ (647)

At December 31, 2020, there were 16 AFS debt securities with unrealized losses in the less-than-twelve-month category and no AFS debt securities with unrealized losses in the twelve-months-or-more category. The unrealized losses were principally due to changes in market interest rates that resulted in a negative impact on the respective securities' fair value. All amounts related to these securities are expected to be recovered when market prices recover or at maturity. Customers does not intend to sell any of the 16 securities, and it is not more likely than not that Customers will be required to sell any of the 16 securities before recovery of the amortized cost basis. At December 31, 2019, there were no AFS debt securities in an unrealized loss position.

At December 31, 2020 and 2019, Customers Bank had pledged investment securities aggregating $18.8 million and $20.4 million in fair value, primarily as collateral against an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

At December 31, 2020 and 2019, no securities holdings of any one issuer, other than the U.S. government and its agencies, amounted to greater than 10% of shareholders' equity.

NOTE 6 – LOANS HELD FOR SALE

The composition of loans held for sale as of December 31, 2020 and 2019 was as follows:

	December 31,	
(amounts in thousands)	2020	2019
Commercial loans:		
Multi-family loans, at lower of cost or fair value	$ —	$ 482,873
Commercial and industrial loans, at lower of cost or fair value	55,683	$ —
Commercial real estate non-owner occupied loans, at lower of cost or fair value	17,251	$ —
Total commercial loans held for sale	72,934	482,873
Consumer loans:		
Home equity conversion mortgages, at lower of cost or fair value	643	1,325
Residential mortgage loans, at fair value	5,509	2,130
Total consumer loans held for sale	6,152	3,455
Loans held for sale	$ 79,086	$ 486,328

On September 30, 2020, Customers Bank transferred $401.1 million of multi-family loans from loans held for sale to loans and leases receivable (held for investment) at their carrying value, which approximated their fair value at the time of transfer, because it no longer had the intent to sell these loans. Customers Bank had previously transferred $499.8 million of multi-family loans from loans and leases receivable (held for investment) to loans held for sale on September 30, 2019. Customers Bank transferred these loans at their carrying value, which was lower than the estimated fair value at the time of transfer. At December 31, 2019, the carrying value of these loans approximates their fair value. Total loans held for sale as of December 31, 2020 and 2019 included non-performing loans ("NPLs") of $18.5 million and $1.3 million, respectively.

NOTE 7 – LOANS AND LEASES RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

The following table presents loans and leases receivable as of December 31, 2020 and 2019:

	December 31,	
(amounts in thousands)	2020	2019
Loans receivable, mortgage warehouse, at fair value	$ 3,616,432	$ 2,245,758
Loans receivable, PPP	4,561,365	—
Loans receivable:		
Commercial:		
Multi-family	1,761,301	1,907,331
Commercial and industrial (1)	2,289,441	1,891,152
Commercial real estate owner occupied	572,338	551,948
Commercial real estate non-owner occupied	1,196,564	1,222,772
Construction	140,905	117,617
Total commercial loans and leases receivable	5,960,549	5,690,820
Consumer:		
Residential real estate	317,170	382,634
Manufactured housing	62,243	71,359
Installment	1,235,406	1,174,175
Total consumer loans receivable	1,614,819	1,628,168
Loans and leases receivable (2)	7,575,368	7,318,988
Allowance for credit losses on loans and leases	(144,176)	(56,379)
Total loans and leases receivable, net of allowance for credit losses on loans and leases	$ 15,608,989	$ 9,508,367

(1) Includes direct finance equipment leases of $108.0 million and $89.2 million at December 31, 2020 and 2019, respectively.
(2) Includes deferred (fees) costs and unamortized (discounts) premiums, net of $(54.6) million and $2.1 million at December 31, 2020 and 2019, respectively.

Customers' total loans and leases receivable portfolio includes loans receivable which are reported at fair value based on an election made to account for these loans at fair value and loans and leases receivable which are predominately reported at their outstanding unpaid principal balance, net of charge-offs and deferred costs and fees and unamortized premiums and discounts and are evaluated for impairment. The total amount of accrued interest recorded for total loans was $76.6 million and $34.8 million at December 31, 2020 and 2019, respectively, and is presented in accrued interest receivable in the consolidated balance sheet. At December 31, 2020, there were $59.5 million of individually evaluated loans that were collateral-dependent. Substantially all individually evaluated loans are collateral-dependent and consisted primarily of commercial and industrial, commercial real estate, and residential real estate loans. Collateral-dependent commercial and industrial loans were secured by accounts receivable, inventory and equipment; collateral-dependent commercial real estate loans were secured by commercial real estate assets; and residential real estate loans were secured by residential real estate assets.

On January 13, 2021, Customers sold a commercial real estate loan collateralized by a hotel property in Massachusetts. At December 31, 2020, this collateral dependent loan has been charged down to its estimated fair value, net of costs to sell, of $17.3 million.

Loans receivable, mortgage warehouse, at fair value:

Mortgage warehouse loans consist of commercial loans to mortgage companies. These mortgage warehouse lending transactions are subject to master repurchase agreements. As a result of the contractual provisions, for accounting purposes control of the underlying mortgage loan has not transferred and the rewards and risks of the mortgage loans are not assumed by Customers. The mortgage warehouse loans are designated as loans held for investment and reported at fair value based on an election made to account for the loans at fair value. Pursuant to the agreements, Customers funds the pipelines for these mortgage lenders by sending payments directly to the closing agents for funded mortgage loans and receives proceeds directly from third party investors when the underlying mortgage loans are sold into the secondary market. The fair value of the mortgage warehouse loans is estimated as the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The interest rates on these loans are variable, and the lending transactions are short-term, with an average life under 30 days from purchase to sale. The primary goal of these lending transactions is to provide liquidity to mortgage companies.

At December 31, 2020 and 2019, all of Customers' commercial mortgage warehouse loans were current in terms of payment. As these loans are reported at their fair value, they do not have an ACL and are therefore excluded from ACL-related disclosures.

Loans receivable, PPP:

On March 27, 2020, the CARES Act was signed into law and created funding for a new product called the PPP. The PPP is administered by the SBA and is intended to assist organizations with payroll related expenses. Customers had $4.6 billion of PPP loans outstanding as of December 31, 2020, which are fully guaranteed by the SBA and earn a fixed interest rate of 1.00%. Customers recognized interest income, including net origination fees, of $65.5 million for the year ended December 31, 2020.

PPP loans include an embedded credit enhancement guarantee from the SBA, which guarantees 100% of the principal and interest owed by the borrower. As a result, the PPP loans do not have an ACL and are therefore excluded from ACL-related disclosures.

Loans and leases receivable:

The following tables summarize loans and leases receivable by loan and lease type and performance status as of December 31, 2020 and 2019:

	December 31, 2020					
(amounts in thousands)	30-59 Days past due (1)	60-89 Days past due (1)	90 Days or more past due (1)	Total past due (1)	Loans and leases not past due (2)	Total loans and leases (3)
Multi-family	$ 4,193	$ 5,224	$ 14,907	$ 24,324	$ 1,736,977	$ 1,761,301
Commercial and industrial	2,257	1,274	3,079	6,610	2,282,831	2,289,441
Commercial real estate owner occupied	864	1,324	2,370	4,558	567,780	572,338
Commercial real estate non-owner occupied	—	60	2,356	2,416	1,194,148	1,196,564
Construction	—	—	—	—	140,905	140,905
Residential real estate	6,640	1,827	1,856	10,323	306,847	317,170
Manufactured housing	1,518	673	1,951	4,142	58,101	62,243
Installment	6,161	3,430	81	9,672	1,225,734	1,235,406
Total	$ 21,633	$ 13,812	$ 26,600	$ 62,045	$ 7,513,323	$ 7,575,368

	December 31, 2019						
(amounts in thousands)	30-89 Days past due (1)	90 Days past due (1)	Total past due (1)	Non- accrual	Current (2)	Purchased-credit-impaired loans (4)	Total loans and leases (5)
Multi-family	$ 2,133	$ —	$ 2,133	$ 4,117	$ 1,901,336	$ 1,688	$1,909,274
Commercial and industrial	2,395	—	2,395	4,531	1,882,700	354	1,889,980
Commercial real estate owner occupied	5,388	—	5,388	1,963	537,992	6,664	552,007
Commercial real estate non-owner occupied	8,034	—	8,034	76	1,211,892	3,527	1,223,529
Construction	—	—	—	—	118,418	—	118,418
Residential real estate	5,924	—	5,924	6,128	359,491	3,471	375,014
Manufactured housing	3,699	1,794	5,493	1,655	61,649	1,601	70,398
Installment	5,756	—	5,756	1,551	1,170,793	183	1,178,283
Total	$ 33,329	$ 1,794	$ 35,123	$ 20,021	$ 7,244,271	$ 17,488	$ 7,316,903

(1) Includes past due loans and leases that are accruing interest because collection is considered probable.
(2) Loans and leases where next payment due is less than 30 days from the report date. The December 31, 2020 table excludes PPP loans of $4.6 billion which are all current as of December 31, 2020.
(3) Includes PCD loans of $13.4 million at December 31, 2020.
(4) PCI loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Due to the credit impaired nature of the loans, the loans are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing. PCI loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.
(5) Amounts exclude deferred costs and fees and unamortized premiums and discounts.

As of December 31, 2020 and 2019, the Bank had $0.1 million and $0.2 million respectively, of residential real estate held in other real estate owned ("OREO"). As of December 31, 2020 and 2019, the Bank had initiated foreclosure proceedings on $0.8 million and $0.9 million, respectively, in loans secured by residential real estate.

Nonaccrual Loans and Leases

The following table presents the amortized cost of loans and leases held for investment on nonaccrual status.

	December 31, 2020 [1]			December 31, 2019 [2]		
(amounts in thousands)	Nonaccrual loans with no related allowance	Nonaccrual loans with related allowance	Total nonaccrual loans	Nonaccrual loans with no related allowance	Nonaccrual loans with related allowance	Total nonaccrual loans
Multi-family	$ 18,800	$ 2,928	$ 21,728	$ 4,117	$ —	$ 4,117
Commercial and industrial	6,384	2,069	8,453	3,083	1,448	4,531
Commercial real estate owner occupied	3,411	—	3,411	1,109	854	1,963
Commercial real estate non-owner occupied	2,356	—	2,356	76	—	76
Residential real estate	9,911	—	9,911	4,559	1,569	6,128
Manufactured housing	—	2,969	2,969	—	1,655	1,655
Installment	—	3,211	3,211	140	1,411	1,551
Total	$ 40,862	$ 11,177	$ 52,039	$ 13,084	$ 6,937	$ 20,021

(1) Presented at amortized cost basis.
(2) Amounts exclude deferred costs and fees and unamortized premiums and discounts.

Interest income recognized on nonaccrual loans was insignificant during the year ended December 31, 2020. Accrued interest of $1.3 million was reversed when the loans went to nonaccrual status during the year ended December 31, 2020.

Allowance for credit losses on loans and leases:

The changes in the ACL for the years ended December 31, 2020 and 2019, and the loans and leases and ACL by loan and lease type are presented in the tables below. ACL as of December 31, 2020 is calculated in accordance with the CECL methodology as described in Note 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION while ACL as of December 31, 2019 was calculated in accordance with the prior incurred loss methodology described in our 2019 Form 10-K.

Twelve months ended December 31, 2020 (amounts in thousands)	Multi-family	Commercial and industrial	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Construction	Residential real estate	Manufactured housing	Installment	Total
Ending Balance, December 31, 2019	$ 6,157	$ 15,556	$ 2,235	$ 6,243	$ 1,262	$ 3,218	$ 1,060	$ 20,648	$ 56,379
Cumulative effect of change in accounting principle	2,171	759	5,773	7,918	(98)	1,518	3,802	57,986	79,829
Charge-offs	—	(3,158)	(78)	(25,779)	—	(60)	—	(32,661)	(61,736)
Recoveries	—	3,019	28	1,293	128	86	—	2,376	6,930
Provision for credit losses on loans and leases	4,292	(3,937)	1,554	29,777	4,579	(785)	328	26,966	62,774
Ending Balance, December 31, 2020	$ 12,620	$ 12,239	$ 9,512	$ 19,452	$ 5,871	$ 3,977	$ 5,190	$ 75,315	$ 144,176

Twelve months ended December 31, 2019 (amounts in thousands)	Multi-family	Commercial and industrial	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Construction	Residential real estate	Manufactured housing	Installment	Total
Ending Balance, December 31, 2018	$ 11,462	$ 12,145	$ 3,320	$ 6,093	$ 624	$ 3,654	$ 145	$ 2,529	$ 39,972
Charge-offs	(541)	(532)	(119)	—	—	(297)	—	(8,101)	(9,590)
Recoveries	7	1,050	236	—	136	27	—	314	1,770
Provision for credit losses on loans and leases	(4,771)	2,893	(1,202)	150	502	(166)	915	25,906	24,227
Ending Balance, December 31, 2019	$ 6,157	$ 15,556	$ 2,235	$ 6,243	$ 1,262	$ 3,218	$ 1,060	$ 20,648	$ 56,379

At December 31, 2020, the ACL was $144.2 million, an increase of $8.0 million from the January 1, 2020 balance of $136.2 million. The increase resulted primarily from the impact of reserve build for the COVID-19 pandemic including the change in macroeconomic forecasts and portfolio growth mainly in the installment portfolio, partially offset by an increase in net charge-offs, mostly attributed to the commercial real estate non-owner occupied and installment loan portfolios. Commercial real estate non-owner occupied charge-offs are attributable to two collateral dependent loans, which have subsequently been sold. Installment charge-offs are attributable to delinquencies and defaults of originated and purchased unsecured consumer installment loans through arrangements with fintech companies and other market place lenders.

Troubled Debt Restructurings

At December 31, 2020, 2019 and 2018, there were $16.1 million, $13.3 million and $19.2 million, respectively, in loans reported as TDRs. TDRs are reported as impaired loans in the calendar year of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if it satisfies a minimum performance requirement of six months, however, it will remain classified as impaired. Generally, the Bank requires sustained performance for nine months before returning a TDR to accrual status. Customers had no lease receivables that had been restructured as a TDR as of December 31, 2020 and 2019, respectively.

The CARES Act, as amended by the CAA, and certain regulatory agencies issued guidance stating certain loan modifications to borrowers experiencing financial distress as a result of the economic impacts created by COVID-19 may not be required to be treated as TDRs under U.S. GAAP. For COVID-19 related loan modifications which met the loan modification criteria under either the CARES Act or the criteria specified by the regulatory agencies, Customers elected to suspend TDR accounting for such loan modifications. At December 31, 2020, commercial and consumer deferments related to COVID-19 were $202.1 million and $16.4 million, respectively.

The following table presents loans modified in a TDR by type of concession for the years ended December 31, 2020, 2019 and 2018. There were no modifications that involved forgiveness of debt for the years ended December 31, 2020, 2019 and 2018.

	For the Years Ended December 31,					
	2020		2019		2018	
(dollars in thousands)	Number of loans	Recorded investment	Number of loans	Recorded investment	Number of loans	Recorded investment
Extensions of maturity	6	$ 385	2	$ 514	2	$ 60
Interest-rate reductions	35	1,479	26	923	39	1,615
Other [(1)]	80	$ 1,813	—	$ —	—	$ —
Total	121	$ 3,677	28	$ 1,437	41	$ 1,675

(1) Other includes covenant modifications, forbearance, loans discharged under Chapter 7 bankruptcy, or other concessions.

As of December 31, 2020 and 2019, there were no commitments to lend additional funds to borrowers whose loans have been modified in TDRs. As of December 31, 2018, except for one commercial and industrial loan with an outstanding commitment of $1.5 million, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs.

The following table presents, by loan type, the number of loans modified in TDRs and the related recorded investment, for which there was a payment default within twelve months following the modification:

	December 31, 2020		December 31, 2019		December 31, 2018	
(dollars in thousands)	Number of loans	Recorded investment	Number of loans	Recorded investment	Number of loans	Recorded investment
Installment	15	$ 226	—	$ —	—	$ —
Residential real estate	3	152	1	81	—	—
Manufactured housing	6	236	3	73	4	92
Total loans	24	$ 614	4	$ 154	4	$ 92

Loans modified in TDRs are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of ACL.

Purchased Credit-Deteriorated Loans

Customers adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration that were previously classified as PCI and accounted for under ASC 310-30. In accordance with the standard, Customers did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2020, the amortized cost basis of the PCD assets were adjusted to reflect the addition of $0.2 million of the allowance for credit losses on PCD loans and leases. The remaining noncredit discount of $0.3 million, based on the adjusted amortized cost basis, will be accreted into interest income at the effective interest rate as of January 1, 2020. As of December 31, 2020, the amortized cost basis of PCD assets amounted to $13.4 million.

Credit Quality Indicators

The ACL represents management's estimate of probable losses in Customers' loans and leases receivable portfolio, excluding commercial mortgage warehouse loans reported at fair value pursuant to a fair value option election and PPP loans fully guaranteed by the SBA. Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, and construction loans are rated based on an internally assigned risk rating system which is assigned at the time of loan origination and reviewed on a periodic, or on an “as needed” basis. Residential real estate loans, manufactured housing and installment loans are evaluated based on the payment activity of the loan.

To facilitate the monitoring of credit quality within the multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, and construction loan portfolios, and as an input in the ACL lifetime loss rate model for the commercial and industrial portfolio, the Bank utilizes the following categories of risk ratings: pass/satisfactory (includes risk rating 1 through 6), special mention, substandard, doubtful and loss. The risk rating categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter. Pass/satisfactory ratings, which are assigned to those borrowers who do not have identified potential or well-defined weaknesses and for whom there is a high likelihood of orderly repayment, are updated periodically based on the size and credit characteristics of the borrower. All other categories are updated on a quarterly basis during the month preceding the end of the calendar quarter. While assigning risk ratings involves judgment, the risk-rating process allows management to identify riskier credits in a timely manner and allocate the appropriate resources to manage those loans and leases.

The risk rating grades are defined as follows:

<u>“1” – *Pass/Excellent*</u>

Loans and leases rated 1 represent a credit extension of the highest quality. The borrower’s historic (at least five years) cash flows manifest extremely large and stable margins of coverage. Balance sheets are conservative, well capitalized, and liquid. After considering debt service for proposed and existing debt, projected cash flows continue to be strong and provide ample coverage. The borrower typically reflects broad geographic and product diversification and has access to alternative financial markets.

<u>“2” – *Pass/Superior*</u>

Loans and leases rated 2 are those for which the borrower has a strong financial condition, balance sheet, operations, cash flow, debt capacity and coverage with ratios better than industry norms. The borrowers of these loans and leases exhibit a limited leverage position, are virtually immune to local economies, and are in stable growing industries. The management team is well respected, and the company has ready access to public markets.

<u>“3” – *Pass/Strong*</u>

Loans and leases rated 3 are those loans and leases for which the borrowers have above average financial condition and flexibility; more than satisfactory debt service coverage; balance sheet and operating ratios are consistent with or better than industry peers; operate in industries with little risk; move in diversified markets; and are experienced and competent in their industry. These borrowers’ access to capital markets is limited mostly to private sources, often secured, but the borrower typically has access to a wide range of refinancing alternatives.

<u>“4” – *Pass/Good*</u>

Loans and leases rated 4 have a sound primary and secondary source of repayment. The borrower may have access to alternative sources of financing, but sources are not as widely available as they are to a higher-grade borrower. These loans and leases carry a normal level of risk with very low loss exposure. The borrower has the ability to perform according to the terms of the credit facility. The margins of cash flow coverage are satisfactory but vulnerable to more rapid deterioration than the higher-quality loans and leases.

“5” – Satisfactory

Loans and leases rated 5 are extended to borrowers who are considered to be a reasonable credit risk and demonstrate the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. The borrower’s historical financial information may indicate erratic performance, but current trends are positive and the quality of financial information is adequate, but is not as detailed and sophisticated as information found on higher grade loans. If adverse circumstances arise, the impact on the borrower may be significant.

“6” – Satisfactory/Bankable with Care

Loans and leases rated 6 are those for which the borrower has higher than normal credit risk; however, cash flow and asset values are generally intact. These borrowers may exhibit declining financial characteristics, with increasing leverage and decreasing liquidity and may have limited resources and access to financial alternatives. Signs of weakness in these borrowers may include delinquent taxes, trade slowness and eroding profit margins.

“7” – Special Mention

Loans and leases rated 7 are credit facilities that may have potential developing weaknesses and deserve extra attention from the account manager and other management personnel. In the event potential weaknesses are not corrected or mitigated, deterioration in the ability of the borrower to repay the debt in the future may occur. This grade is not assigned to loans and leases that bear certain peculiar risks normally associated with the type of financing involved, unless circumstances have caused the risk to increase to a level higher than would have been acceptable when the credit was originally approved. Loans and leases where significant actual, not potential, weaknesses or problems are clearly evident are graded in the category below.

“8” – Substandard

Loans and leases are rated 8 when the loans and leases are inadequately protected by the current sound worth and payment capacity of the obligor or of the collateral pledged, if any. Loans and leases so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the company will sustain some loss if the weaknesses are not corrected.

“9” – Doubtful

The Bank assigns a doubtful rating to loans and leases that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

“10” – Loss

The Bank assigns a loss rating to loans and leases considered uncollectible and of such little value that their continuance as an active asset is not warranted. Amounts classified as loss are immediately charged off.

PPP loans are excluded in the tables below as these loans are fully guaranteed by the SBA. Risk ratings are not established for certain consumer loans, including residential real estate, home equity, manufactured housing, and installment loans, mainly because these portfolios consist of a larger number of homogeneous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based upon aggregate payment history through the monitoring of delinquency levels and trends and are classified as performing and non-performing. The following tables present the credit ratings of loans and leases receivable as of December 31, 2020 and 2019.

(amounts in thousands)	Term Loans Amortized Cost Basis by Origination Year 2020	2019	2018	2017	2016	Prior	Revolving loans amortized cost basis	Revolving loans converted to term	Total
Multi-family loans:									
Pass	$ 150,835	$ 23,716	$ 299,319	$ 535,510	$ 227,296	$ 420,809	$ —	$ —	$ 1,657,485
Special mention	—	—	—	20,901	10,394	26,708	—	—	58,003
Substandard	—	—	—	34,197	8,256	3,360	—	—	45,813
Doubtful	—	—	—	—	—	—	—	—	—
Total multi-family loans	$ 150,835	$ 23,716	$ 299,319	$ 590,608	$ 245,946	$ 450,877	$ —	$ —	$ 1,761,301
Commercial and industrial loans and leases:									
Pass	$ 729,270	$ 373,050	$ 141,943	$ 116,793	$ 45,367	$ 71,502	$ 717,007	$ —	$ 2,194,932
Special mention	13,200	1,117	436	113	516	21	17,524	—	32,927
Substandard	9,968	6,890	19,065	5,901	8,318	2,722	8,718	—	61,582
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial and industrial loans and leases	$ 752,438	$ 381,057	$ 161,444	$ 122,807	$ 54,201	$ 74,245	$ 743,249	$ —	$ 2,289,441
Commercial real estate owner occupied loans:									
Pass	$ 82,343	$ 168,977	$ 72,615	$ 70,642	$ 46,510	$ 91,798	$ 741	$ —	$ 533,626
Special mention	—	4,464	—	9,056	—	555	—	—	14,075
Substandard	—	2,848	9,499	342	2,231	9,717	—	—	24,637
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial real estate owner occupied loans	$ 82,343	$ 176,289	$ 82,114	$ 80,040	$ 48,741	$ 102,070	$ 741	$ —	$ 572,338
Commercial real estate non-owner occupied:									
Pass	$ 143,231	$ 105,430	$ 97,882	$ 157,835	$ 155,168	$ 313,559	$ —	$ —	$ 973,105
Special mention	39,994	—	—	66,745	24,218	14,613	—	—	145,570
Substandard	—	—	17,741	20,611	366	39,171	—	—	77,889
Doubtful	—	—		—	—	—	—	—	—
Total commercial real estate non-owner occupied loans	$ 183,225	$ 105,430	$ 115,623	$ 245,191	$ 179,752	$ 367,343	$ —	$ —	$ 1,196,564
Construction:									
Pass	$ 19,932	$ 105,466	$ 4,954	$ —	$ 9,700	$ —	$ 853	$ —	$ 140,905
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total construction loans	$ 19,932	$ 105,466	$ 4,954	$ —	$ 9,700	$ —	$ 853	$ —	$ 140,905
Total commercial loans and leases receivable	$ 1,188,773	$ 791,958	$ 663,454	$ 1,038,646	$ 538,340	$ 994,535	$ 744,843	$ —	$ 5,960,549
Residential real estate loans:									
Performing	$ 6,708	$ 13,617	$ 6,810	$ 10,850	$ 38,143	$ 69,496	$ 161,576	$ —	$ 307,200
Non-performing	—	—	160	785	1,350	4,395	3,280	—	9,970
Total residential real estate loans	$ 6,708	$ 13,617	$ 6,970	$ 11,635	$ 39,493	$ 73,891	$ 164,856	$ —	$ 317,170
Manufactured housing loans:									
Performing	$ —	$ 295	$ 609	$ 76	$ 41	$ 56,837	$ —	$ —	$ 57,858
Non-performing	—	—	—	—	—	4,385	—	—	4,385
Total manufactured housing loans	$ —	$ 295	$ 609	$ 76	$ 41	$ 61,222	$ —	$ —	$ 62,243
Installment loans:									
Performing	$ 319,453	$ 791,235	$ 114,988	$ 4,736	$ 514	$ 1,204	$ —	$ —	$ 1,232,130
Non-performing	305	2,326	485	41	2	117	—	—	3,276
Total installment loans	$ 319,758	$ 793,561	$ 115,473	$ 4,777	$ 516	$ 1,321	$ —	$ —	$ 1,235,406
Total consumer loans	$ 326,466	$ 807,473	$ 123,052	$ 16,488	$ 40,050	$ 136,434	$ 164,856	$ —	$ 1,614,819
Loans and leases receivable	$ 1,515,239	$ 1,599,431	$ 786,506	$ 1,055,134	$ 578,390	$ 1,130,969	$ 909,699	$ —	$ 7,575,368

(amounts in thousands)	December 31, 2019								
	Multi-family	Commercial and industrial	Commercial real estate owner occupied	Commercial real estate non-owner occupied	Construction	Residential real estate	Manufactured housing	Installment	Total [3]
Pass/Satisfactory	$ 1,816,200	$ 1,841,074	$ 536,777	$ 1,129,838	$ 118,418	$ —	$ —	$ —	$ 5,442,307
Special Mention	69,637	26,285	8,286	6,949	—	—	—	—	111,157
Substandard	23,437	22,621	6,944	86,742	—	—	—	—	139,744
Performing [1]	—	—	—	—	—	362,962	63,250	1,170,976	1,597,188
Non-performing [2]	—	—	—	—	—	12,052	7,148	7,307	26,507
Total	$ 1,909,274	$ 1,889,980	$ 552,007	$ 1,223,529	$ 118,418	$ 375,014	$ 70,398	$ 1,178,283	$ 7,316,903

(1) Includes residential real estate, manufactured housing, and installment loans not assigned internal ratings.
(2) Includes residential real estate, manufactured housing, and installment loans that are past due and still accruing interest or on nonaccrual status.
(3) Excludes commercial mortgage warehouse loans reported at fair value.

Loan Purchases and Sales

Purchases and sales of loans were as follows for the years ended December 31, 2020, 2019 and 2018:

(amounts in thousands)	For the Years Ended December 31,		
	2020	2019	2018
Purchases [1]			
Residential real estate	$ 495	$ 105,858	$ 368,402
Installment [2]	269,684	1,058,261	30,066
Total	$ 270,179	$ 1,164,119	$ 398,468
Sales [3]			
Multi-family	$ —	$ —	$ 54,638
Commercial and industrial [4]	6,940	22,267	32,263
Commercial real estate owner occupied [4]	—	16,320	20,218
Commercial real estate non-owner occupied	17,600	—	—
Residential real estate	—	230,285	—
Installment	1,822	—	—
Total	$ 26,362	$ 268,872	$ 107,119

(1) Amounts reported represent the unpaid principal balance at time of purchase. The purchase price was 100.3%, 100.3% and 99.9% of loans outstanding for the years ended December 31, 2020, 2019 and 2018, respectively.
(2) Installment loan purchases for the year ended December 31, 2020, 2019 and 2018 consist of third-party originated unsecured consumer loans. None of the loans are considered sub-prime at the time of origination. Customers considers sub-prime borrowers to be those with FICO scores below 660.
(3) Amounts reported in the above table are the unpaid principal balance at time of sale. For the years ended December 31, 2020, 2019 and 2018, loan sales resulted in net gains of $2.0 million, $2.8 million and $3.3 million, respectively.

Loans Pledged as Collateral

Customers has pledged eligible real estate and commercial and industrial loans as collateral for borrowings from the FHLB and FRB in the amount of $8.5 billion and $4.6 billion at December 31, 2020 and 2019, respectively. The increase in loans pledged as collateral relates to $4.6 billion of PPP loans that were pledged to the Federal Reserve Bank of Philadelphia ("FRB") in accordance with borrowing from the PPP Liquidity Facility ("PPPLF").

NOTE 8 – LEASES

Lessee

Customers has operating leases for its branches, certain limited purpose offices ("LPOs"), and administrative offices, with remaining lease terms ranging between 1 month and 7 years. These operating leases comprise substantially all of Customers' obligations in which Customers is the lessee. Most lease agreements consist of initial lease terms ranging between 1 and 5 years, with options to renew the leases or extend the term up to 15 years at Customers' sole discretion. Some operating leases include variable lease payments that are based on an index or rate, such as the CPI. Variable lease payments are not included in the liability or ROU asset and are recognized in the period in which the obligations for those payments are incurred. Customers' operating lease agreements do not contain any material residual value guarantees or material restrictive covenants. Pursuant to these agreements, Customers does not have any commitments that would meet the definition of a finance lease.

As most of Customers' operating leases do not provide an implicit rate, Customers utilized its incremental borrowing rate based on the information available at either the adoption of ASC 842, *Leases* ("ASC 842") or the commencement date of the lease, whichever was later, when determining the present value of lease payments. Customers does not present ROU assets and corresponding liabilities for operating leases for fiscal years prior to the adoption of this standard.

A ROU asset of $23.8 million, net of $1.1 million in accrued rent, and lease liabilities of $24.9 million were recognized with the adoption of ASC 842 on January 1, 2019.

The following table summarizes operating lease ROU assets and operating lease liabilities and their corresponding balance sheet location:

(amounts in thousands)	Classification	December 31, 2020	December 31, 2019
ASSETS			
Operating lease ROU assets	Other assets	$ 17,696	$ 20,232
LIABILITIES			
Operating lease liabilities	Other liabilities	$ 19,133	$ 21,358

The following table summarizes operating lease cost and its corresponding income statement location for the periods presented:

		For the Years Ended December 31,	
(amounts in thousands)	Classification	July 12, 1905	July 11, 1905
Operating lease cost [(1)]	Occupancy expenses	$ 6,184	$ 5,823

(1) There were no variable lease costs for the years ended December 31, 2020 and 2019, and sublease income for operating leases was immaterial.

Maturities of non-cancelable operating lease liabilities were as follows at December 31, 2020:

(amounts in thousands)	December 31, 2020
2021	$ 5,142
2022	4,688
2023	3,829
2024	2,800
2025	1,740
Thereafter	1,446
Total minimum payments	19,645
Less: interest	512
Present value of lease liabilities	$ 19,133

Customers does not have leases where it is involved with the construction or design of an underlying asset. Cash paid pursuant to operating lease liabilities was $5.7 million for the year ended December 31, 2020, and is reported as cash flows used in operating activities in the statement of cash flows.

The following table summarizes the weighted average remaining lease term and discount rate for Customers' operating leases at December 31, 2020 and 2019:

(amounts in thousands)	December 31, 2020	December 31, 2019
Weighted average remaining lease term (years)		
Operating leases	4.5 years	5.0 years
Weighted average discount rate		
Operating leases	2.81 %	2.90 %

Equipment Lessor

CCF is a wholly-owned subsidiary of Customers Bank and is referred to as the Equipment Finance Group. CCF is primarily focused on originating equipment operating and direct finance equipment leases for a broad range of asset classes. It services vendors, dealers, independent finance companies, bank-owned leasing companies and strategic direct customers in the plastics, packaging, machine tool, construction, transportation and franchise markets. Lease terms typically range from 24 months to 120 months. CCF offers the following lease products: Capital Lease, Purchase Upon Termination, TRAC, Split-TRAC, and FMV. Direct finance equipment leases are included in commercial and industrial loans and leases receivable.

The estimated residual values for direct finance and operating leases are established by utilizing internally developed analyses, external studies, and/or third-party appraisals to establish a residual position. For the direct finance leases, only Customers' Split-TRAC leases have residual risk and the unguaranteed portions are typically nominal. Expected credit losses on direct financing leases and the related estimated residual values are included in the ACL on loans and leases.

Leased assets under operating leases are carried at amortized cost net of accumulated depreciation and any impairment charges and are presented in other assets. The depreciation expense of the leased assets is recognized on a straight-line basis over the contractual term of the leases up to the expected residual value. The expected residual value and, accordingly, the monthly depreciation expense, may change throughout the term of the lease. Operating lease rental income for leased assets is recognized in commercial lease income on a straight-line basis over the lease term. Customers periodically reviews its leased assets for impairment. An impairment loss is recognized if the carrying amount of the leased asset exceeds its fair value and is not recoverable. The carrying amount of leased assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the equipment.

The following table summarizes lease receivables and investment in operating leases and their corresponding balance sheet location at December 31, 2020 and 2019:

(amounts in thousands)	Classification	December 31, 2020	December 31, 2019
ASSETS			
Direct financing leases			
Lease receivables	Loans and leases receivable	$ 104,982	$ 91,762
Guaranteed residual assets	Loans and leases receivable	12,988	7,435
Unguaranteed residual assets	Loans and leases receivable	1,229	1,260
Deferred initial direct costs	Loans and leases receivable	560	721
Unearned income	Loans and leases receivable	(11,175)	(11,300)
Net investment in direct financing leases		$ 108,584	$ 89,878
Operating leases			
Investment in operating leases	Other assets	$ 131,791	$ 107,850
Accumulated depreciation	Other assets	(28,919)	(14,251)
Deferred initial direct costs	Other assets	996	1,052
Net investment in operating leases		103,868	94,651
Total lease assets		$ 212,452	$ 184,529

COVID-19 Impact on Leases

Customers granted concessions to lessees as a result of the business impact of the COVID-19 pandemic. At December 31, 2020, the book value of finance and operating leases with payment deferments were $30.4 million and $15.2 million, respectively. The concessions did not have a material impact in interest income from leases for the year ended December 31, 2020. Additionally, Customers did not receive any concessions on its operating leases in which Customers is the lessee.

NOTE 9 – BANK PREMISES AND EQUIPMENT

The components of bank premises and equipment as of December 31, 2020 and 2019 were as follows:

(amounts in thousands)	Expected Useful Life	December 31, 2020	December 31, 2019
Leasehold improvements	3 to 25 years	$ 17,344	$ 14,218
Furniture, fixtures and equipment	5 to 10 years	7,071	6,333
IT equipment	3 to 5 years	9,827	10,016
Automobiles	3 to 5 years	750	492
		34,992	31,059
Accumulated depreciation and amortization		(23,366)	(21,670)
Total		$ 11,626	$ 9,389

Depreciation expense and amortization of leasehold improvements, which are included on the consolidated statements of income in occupancy expenses, were $2.5 million, $3.4 million and $2.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

NOTE 10 – DEPOSITS

The components of deposits at December 31, 2020 and 2019 were as follows:

(amounts in thousands)	December 31, 2020	December 31, 2019
Demand, non-interest bearing	$ 2,356,998	$ 1,343,391
Demand, interest bearing	2,384,691	1,235,292
Savings, including money market deposit accounts	5,916,309	4,401,719
Time, $100,000 and over	470,923	402,161
Time, other	181,008	1,266,373
Total deposits	$ 11,309,929	$ 8,648,936

The scheduled maturities for time deposits at December 31, 2020 were as follows:

(amounts in thousands)	December 31, 2020
2021	$ 519,437
2022	118,412
2023	8,241
2024	4,035
2025	1,802
Thereafter	4
Total time deposits	$ 651,931

Time deposits greater than $250,000 totaled $0.3 billion and $0.2 billion at December 31, 2020 and 2019, respectively.

Included in the demand, interest bearing balances above were $605.6 million and $82.1 million of brokered demand deposits at December 31, 2020 and 2019, respectively. Included in the savings and money market deposit account ("MMDA") balances above were $1.1 billion and $0.3 billion of brokered money market deposits at December 31, 2020 and 2019, respectively. Also included in time, other balances above were $47.0 million and $1.1 billion of brokered time deposits, respectively, at December 31, 2020 and 2019.

Demand deposit overdrafts reclassified as loans were $6.7 million and $2.1 million at December 31, 2020 and 2019, respectively.

NOTE 11 – BORROWINGS

Short-term debt

Short-term debt at December 31, 2020 and 2019 was as follows:

	December 31,			
	2020		2019	
(dollars in thousands)	Amount	Rate	Amount	Rate
FHLB advances	$ 850,000	1.19 %	$ 500,000	2.15 %
Federal funds purchased	250,000	0.09 %	538,000	1.60 %
Total short-term debt	$ 1,100,000		$ 1,038,000	

The following is a summary of additional information relating to Customers' short-term debt:

	December 31,		
(dollars in thousands)	2020	2019	2018
FHLB advances			
Maximum outstanding at any month end	$ 910,000	$ 1,190,150	$ 2,622,165
Average balance during the year	809,788	793,304	1,526,180
Weighted-average interest rate during the year	2.31 %	2.66 %	2.05 %
Federal funds purchased			
Maximum outstanding at any month end	842,000	600,000	195,000
Average balance during the year	239,481	271,400	156,652
Weighted-average interest rate during the year	0.19 %	2.28 %	1.92 %

At December 31, 2020 and 2019, Customers Bank had aggregate availability under federal funds lines totaling $924.0 million and $551.0 million, respectively.

Long-term debt

FHLB and FRB advances

Long-term FHLB and FRB advances at December 31, 2020 and 2019 were as follows:

	December 31,			
	2020		2019	
(dollars in thousands)	Amount	Rate	Amount	Rate
FHLB advances	$ —	— %	$ 350,000	2.36 %
FRB PPP Liquidity Facility advances	4,415,016	0.35 %	—	— %
Total long-term FHLB and FRB advances	$ 4,415,016		$ 350,000	

Beginning in second quarter 2020, Customers began participating in the PPPLF, in which Federal Reserve Banks extend non-recourse loans to institutions that are eligible to make PPP loans. Only PPP loans that are guaranteed by the SBA pursuant to the PPP, with respect to both principal and interest that are originated or purchased by an eligible institution, may be pledged as collateral to the Federal Reserve Banks. There were no advances outstanding with the FRB at December 31, 2019.

The maximum borrowing capacity with the FHLB and FRB at December 31, 2020 and 2019, was as follows:

	December 31,	
(amounts in thousands)	2020	2019
Total maximum borrowing capacity with the FHLB	$ 2,729,516	$ 3,445,416
Total maximum borrowing capacity with the FRB (1)	223,299	136,842
Qualifying loans serving as collateral against FHLB and FRB advances (1)	3,363,364	4,496,983

(1) Amounts reported in the above table exclude borrowings under the PPPLF, which are limited to the unpaid principal balance of the loans originated under the PPP. At December 31, 2020, Customers had $4.4 billion of borrowings under the PPPLF, with a borrowing capacity of up to $4.7 billion, which is the remaining unpaid principal balance of the qualifying PPP loans.

Senior and Subordinated Debt

Long-term senior notes and subordinated debt at December 31, 2020 and 2019 were as follows:

(dollars in thousands)		December 31, 2020	December 31, 2019					
Issued by	Ranking	Amount	Amount	Rate	Issued Amount	Date Issued	Maturity	Price
Customers Bancorp	Senior	$ 24,552	$ 24,432	4.500 %	$ 25,000	September 2019	September 2024	100.000 %
Customers Bancorp	Senior	99,485	99,198	3.950 %	100,000	June 2017	June 2022	99.775 %
Total other borrowings		124,037	123,630					
Customers Bancorp	Subordinated (1)(2)	72,222	72,040	5.375 %	74,750	December 2019	December 2034	100.000 %
Customers Bank	Subordinated (1)(3)	109,172	109,075	6.125 %	110,000	June 2014	June 2029	100.000 %
Total subordinated debt		$ 181,394	$ 181,115					

(1) The subordinated notes qualify as Tier 2 capital for regulatory capital purposes.
(2) Customers Bancorp has the ability to call the subordinated notes, in whole, or in part, at a redemption price equal to 100% of the principal balance at certain times on or after December 30, 2029.
(3) The subordinated notes will bear an annual fixed rate of 6.125% until June 26, 2024. From June 26, 2024 until maturity, the notes will bear an annual interest rate equal to the three-month LIBOR plus 344.3 basis points. Customers Bank has the ability to call the subordinated notes, in whole, or in part, at a redemption price equal to 100% of the principal balance at certain times on or after June 26, 2024.

NOTE 12 – SHAREHOLDERS' EQUITY

Common Stock

During 2020, 2019 and 2018, Customers Bancorp did not issue any shares of its common stock other than in connection with share-based compensation programs.

In November 2013, Customers Bancorp announced that its Board of Directors had authorized a stock repurchase plan in which it could acquire up to 5% of its current outstanding shares at prices not to exceed a 20% premium over the then current book value. In December 2018, Customers Bancorp announced that its Board of Directors amended the terms of the November 2013 stock repurchase plan to allow purchases to be made at prices not to exceed the book value per share of Customers' common stock measured as of September 30, 2018. In January 2019, Customers repurchased 31,159 shares of its common stock at a weighted average price of $18.35. In December 2018, Customers Bancorp repurchased 719,200 shares of its common stock at a weighted average price of $18.04. There was no stock repurchased during 2017. Customers repurchased all remaining authorized shares pursuant to this program in January 2019.

Preferred Stock

Customers Bancorp currently has four series of preferred stock outstanding. During 2020, 2019 and 2018, Customers Bancorp did not issue any preferred stock.

The table below summarizes Customers' issuances of preferred stock and the dividends paid per share.

(amounts in thousands except share and per share data)		Shares at December 31,		Carrying value at December 31,					
Fixed-to-floating rate:	Issue Date	2020	2019	2020	2019	Initial Fixed Rate	Date at which dividend rate becomes floating and earliest redemption date	Floating rate of Three-Month LIBOR Plus:	Dividend Paid Per Share in 2020
Series C	May 18, 2015	2,300,000	2,300,000	$ 55,569	$ 55,569	7.00 %	June 15, 2020	5.300 %	$ 1.58
Series D	January 29, 2016	1,000,000	1,000,000	24,108	24,108	6.50 %	March 15, 2021	5.090 %	$ 1.63
Series E	April 28, 2016	2,300,000	2,300,000	55,593	55,593	6.45 %	June 15, 2021	5.140 %	$ 1.61
Series F	September 16, 2016	3,400,000	3,400,000	82,201	82,201	6.00 %	December 15, 2021	4.762 %	$ 1.50
Totals		9,000,000	9,000,000	$ 217,471	$ 217,471				

The net proceeds from the preferred stock offerings were used for general corporate purposes, which included working capital and the funding of organic growth at Customers Bank.

Dividends on the Series C, Series D, Series E and Series F Preferred Stock are not cumulative. If Customers Bancorp's board of directors or a duly authorized committee of the board does not declare a dividend on the Series C, Series D, Series E and Series F Preferred Stock in respect of a dividend period, then no dividend shall be deemed to have accrued for such dividend period, be payable on the applicable dividend payment date, or be cumulative, and Customers Bancorp will have no obligation to pay any dividend for that dividend period, whether or not the board of directors or a duly authorized committee of the board declares a dividend on the Series C, Series D, Series E, and Series F Preferred Stock for any future dividend period.

The Series C, Series D, Series E and Series F Preferred Stock have no stated maturity, are not subject to any mandatory redemption, sinking fund or other similar provisions and will remain outstanding unless redeemed at Customers Bancorp's option. Customers Bancorp may redeem the Series C, Series D, Series E and Series F Preferred Stock at its option, at a redemption price equal to $25.00 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), (i) in whole or in part, from time to time, on any dividend payment date on or after June 15, 2020, for the Series C Preferred Stock, March 15, 2021, for the Series D Preferred Stock, June 15, 2021, for the Series E Preferred Stock and December 15, 2021, for the Series F Preferred Stock and or (ii) in whole but not in part, within 90 days following the occurrence of a regulatory capital treatment event. Any redemption of the Series C, Series D, Series E and Series F Preferred Stock is subject to prior approval of the Federal Reserve Board. The Series C, Series D, Series E and Series F Preferred Stock qualify as Tier 1 capital under regulatory capital guidelines. Except in limited circumstances, the Series C, Series D, Series E and Series F Preferred Stock do not have any voting rights.

NOTE 13 – EMPLOYEE BENEFIT PLANS

401(k) Plan

Customers has a 401(k) profit sharing plan whereby eligible team members may contribute amounts up to the annual IRS statutory contribution limit. Customers provides a matching contribution equal to 50% of the first 6% of the contribution made by the team member. Employer contributions for the years ended December 31, 2020, 2019 and 2018 were $2.7 million, $2.2 million, and $2.1 million, respectively.

Supplemental Executive Retirement Plan

Customers entered into a supplemental executive retirement plan ("SERP") with its Chairman and CEO that provides annual retirement benefits for a 15-year period upon the later of him reaching the age of 65 or when he terminates employment. The SERP is a defined-contribution type of deferred-compensation arrangement that is designed to provide a target annual retirement benefit of $300,000 per year for 15 years starting at age 65, based on an assumed constant rate of return of 7% per year. The level of retirement benefit is not guaranteed by Customers, and the ultimate retirement benefit can be less than or greater than the target. Customers funds its obligations under the SERP with the increase in cash surrender value of a life insurance policy on the life of the Chairman and CEO which it owns. The present value of the amount owed as of December 31, 2020 and 2019 was $6.4 million and $5.5 million, respectively, and was included in other liabilities.

NOTE 14 – SHARE-BASED COMPENSATION PLANS

Summary

During 2019, the shareholders of Customers Bancorp approved the 2019 Plan, during 2010, the shareholders of Customers Bancorp approved the 2010 Plan, and during 2012, the shareholders of Customers Bancorp approved the 2004 Plan. The purpose of these plans is to promote the success and enhance the value of Customers Bancorp by linking the personal interests of the members of the Board of Directors, team members, officers and executives of Customers to those of the shareholders of Customers and by providing such individuals with an incentive for outstanding performance in order to generate superior returns to shareholders of Customers. The 2019 Plan, 2010 Plan and 2004 Plan are intended to provide flexibility to Customers in its ability to motivate, attract and retain the services of members of the Board of Directors, team members, officers and executives of Customers. Stock options and restricted stock units normally vest on the third or fifth anniversary of the grant date provided the grantee remains employed by Customers or continues to serve on the Board. With respect to certain stock options granted under the 2010 Plan, vested options shall be exercisable only when Customers' fully diluted tangible book value will have increased by 50% from the date of grant. Share-based awards generally provide for accelerated vesting if there is a change in control (as defined in the Plans). No stock options may be exercisable for more than 10 years from the date of grant.

The 2019, 2010 and 2004 Plans are administered by the Compensation Committee of the Board of Directors. The 2019 Plan provides for the grant of options, some or all of which may be structured to qualify as Incentive Stock Options if granted to team members, stock appreciation rights, restricted stock, restricted stock units and unrestricted stock to team members, officers, executives, members of the Board of Directors, consultants, and advisors. The maximum number of shares of common stock which may be issued under the 2019 Plan is 1,500,000 shares. The 2010 Plan provides exclusively for the grant of stock options, some or all of which may be structured to qualify as Incentive Stock Options, to team members, officers and executives. The maximum number of shares of common stock which may be issued under the 2010 Plan is 3,666,667 shares. The 2004 Plan provides for the grant of options, some or all of which may be structured to qualify as Incentive Stock Options if granted to team members, stock appreciation rights, restricted stock, restricted stock units and unrestricted stock to team members, officers, executives and members of the Board of Directors. The maximum number of shares of common stock which may be issued under the 2004 Plan is 2,750,000 shares.

On January 1, 2011, Customers initiated a bonus recognition and retention program ("BRRP"). This was a restricted stock unit plan. Team members eligible to participate in the BRRP included the CEO and other senior management and highly compensated team members as determined by the Compensation Committee at its sole discretion. Under the BRRP, a participant elected to defer not less than 25%, nor more than 50%, of his or her bonus payable with respect to each year of participation. Shares of common stock having a value equal to the portion of the bonus deferred by a participant were allocated to an annual deferral account, and a matching amount equal to an identical number of shares of common stock was also allocated to the annual deferral account. A participant becomes 100% vested in the annual deferral account on the fifth anniversary date of the initial funding of the account, provided he or she remains continuously employed by Customers from the date of funding to the anniversary date. Customers discontinued the BRRP in 2019, upon receipt of shareholder approval of the 2019 Plan.

Vesting is accelerated in the event of involuntary termination other than for cause, retirement at or after age 65, death, termination on account of disability or a change in control of Customers. Participants were first eligible to make elections under the BRRP with respect to their bonuses for 2011, which were payable in first quarter 2012. The BRRP did not provide for a specific number of shares to be reserved; by its terms, the award of restricted stock units under this plan is limited by the amount of cash bonuses paid to the participants in the plan. At December 31, 2020, non-vested restricted stock units outstanding under this plan totaled 110,571.

At December 31, 2020, the aggregate number of shares of common stock available for grant under all share-based compensation plans was 1,719,901 shares.

Share-based compensation expense relating to stock options and restricted stock units is recognized on a straight-line basis over the vesting periods of the awards and is a component of salaries and employee benefits expense. Total share-based compensation expense for 2020, 2019 and 2018 was $12.0 million, $8.9 million and $8.6 million, respectively. At December 31, 2020, there was $20.4 million of unrecognized compensation cost related to all non-vested share-based compensation awards. This cost is expected to be recognized through December 2024.

In 2014, the shareholders of Customers Bancorp approved an ESPP. The ESPP is intended to encourage team member participation in the ownership and economic progress of Customers. This plan is intended to qualify as an ESPP within the meaning of the Internal Revenue Code and is administered by the Compensation Committee of the Board of Directors.

Under the ESPP, team members may elect to purchase shares of Customers' common stock through payroll deductions. Because the purchase price under the plan is 85% of the fair market value of a share of common stock on the first day of each quarterly subscription period (a 15% discount to the market price), Customers' ESPP is considered to be a compensatory plan under current accounting guidance. Therefore, the entire amount of the discount is recognizable compensation expense. ESPP expense for 2020, 2019 and 2018 was $140 thousand, $170 thousand, and $141 thousand, respectively.

Stock Options

Customers estimated the fair value of each option on the date of grant generally using the Black-Scholes option pricing model. The risk-free interest rate was based upon the zero-coupon Treasury rates in effect on the grant date of the options based on the expected life of the option. Expected volatility was based on historical information. Expected life was management’s estimate which took into consideration the vesting requirement, generally three or five years.

The exercise price for the options granted was equal to the closing price of Customers Bancorp's voting common stock on the date of grant. The options issued are subject to a three-year waterfall vesting and expire after ten years. No options were granted to officers and team members to purchase shares of Customers Bancorp common stock in 2020.

The following table presents the weighted-average assumptions used and the resulting weighted-average fair value of each option granted for the years ended December 31, 2019 and 2018.

	2019	2018
Weighted-average risk-free interest rate	1.69 %	2.87 %
Expected dividend yield	— %	— %
Weighted-average expected volatility	29.92 %	25.47 %
Weighted-average expected life (in years)	7.00	7.00
Weighted-average fair value of each option granted	$ 5.56	$ 10.05

The following table summarizes stock option activity for the year ended December 31, 2020:

(dollars in thousands, except weighted-average exercise price)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding, December 31, 2019	2,830,248	$ 21.59		$ 9
Granted	—	—		—
Exercised	(12,834)	10.32		74
Expired	(1,834)	9.54		4
Forfeited	(509,241)	23.16		—
Outstanding, December 31, 2020	2,306,339	$ 21.32	4.86	$ 2,059
Exercisable at December 31, 2020	907,045	$ 16.35	2.97	$ 2,059

Cash received from the exercise of the stock options during the year ended December 31, 2020 was $0.1 million. The tax liability resulting from option exercises was $14 thousand in 2020.

A summary of the status of Customers' non-vested options at December 31, 2020, and changes during the year ended December 31, 2020 was as follows:

	Options	Weighted-Average exercise price
Non-vested at December 31, 2019	2,063,509	$ 23.85
Granted	—	—
Vested	(405,751)	21.93
Forfeited	(258,464)	23.12
Non-vested at December 31, 2020	1,399,294	24.55

Restricted Stock Units

The fair value of restricted stock units granted under the 2019 and 2004 Plans is generally determined based on the closing market price of Customers' common stock on the date of grant. The fair value of restricted stock units granted under the BRRP was measured as of the date on which such portion of the bonus would have been paid had the deferral not been elected.

Beginning in 2018, the Compensation Committee recommended and the Board of Directors approved a new long-term incentive compensation plan which incorporates performance metrics into the restricted stock awards for certain of Customers' key officers. Specifically, 40% of the restricted stock units granted as long term incentive compensation will vest ratably over three years. The remaining 60% will vest upon Customers meeting certain performance metrics, including total shareholder return, return on average common equity, and average non-performing assets ("NPAs") to total assets over a three-year period relative to the performance of its peer group. The performance conditions are considered probable.

There were 903,581 restricted stock units granted during the year ended December 31, 2020. The 903,581 units were granted under either the 2004 Plan or the 2019 Plan and are subject to either a three-year waterfall vesting (with one third of the amount vesting annually) or a three-year cliff vesting, with 440,446 of those units also subject to the performance metrics described above.

The table below presents the status of the restricted stock units at December 31, 2020, and changes during the year ended December 31, 2020:

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding and unvested at December 31, 2019	717,681	$ 23.43
Granted	903,581	18.99
Vested	(363,647)	22.99
Forfeited	(23,702)	21.87
Outstanding and unvested at December 31, 2020	1,233,913	20.35

Customers has a policy that permits its directors to elect to receive shares of common stock in lieu of their cash retainers. During the year ended December 31, 2020, Customers issued 41,136 shares of common stock with a fair value of $0.5 million to the directors as compensation for their services. The fair values were generally determined based on the closing price of the common stock the day before the shares were issued.

NOTE 15 – INCOME TAXES

The components of income tax expense were as follows:

	For the Years Ended December 31,		
(amounts in thousands)	2020	2019	2018
Current			
Federal	$ 29,478	$ 2,973	$ 4,509
State	10,220	5,304	5,547
Total current expense	39,698	8,277	10,056
Deferred			
Federal	2,880	13,175	9,702
State	802	1,341	(399)
Total deferred expense	3,682	14,516	9,303
Income tax expense	$ 43,380	$ 22,793	$ 19,359

Effective tax rates differ from the federal statutory rate of 21% at December 31, 2020, December 31, 2019, and 2018, which was applied to income before income tax expense, due to the following:

	For the Years Ended December 31,					
	2020		2019		2018	
(amounts in thousands)	Amount	% of pretax income	Amount	% of pretax income	Amount	% of pretax income
Federal income tax at statutory rate	$ 36,951	21.00 %	$ 21,445	21.00 %	$ 19,121	21.00 %
State income tax, net of federal benefit	8,564	4.87	5,249	5.14	4,067	4.47
Tax-exempt interest, net of disallowance	(492)	(0.28)	(385)	(0.38)	(360)	(0.40)
Bank-owned life insurance	(1,579)	(0.90)	(1,677)	(1.64)	(1,547)	(1.70)
Tax credits	(2,034)	(1.16)	(1,266)	(1.24)	(444)	(0.49)
Equity-based compensation	185	0.11	132	0.13	(547)	(0.60)
Non-deductible executive compensation	751	0.43	440	0.43	230	0.25
Unrecorded basis difference in foreign subsidiaries	(304)	(0.17)	(144)	(0.14)	343	0.38
Enactment of federal tax reform	—	—	—	—	(21)	(0.02)
Other	1,338	0.75	(1,001)	(0.98)	(1,483)	(1.63)
Effective income tax rate	$ 43,380	24.65 %	$ 22,793	22.32 %	$ 19,359	21.26 %

At December 31, 2020 and 2019, Customers had no ASC 740-10 unrecognized tax benefits. Customers does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. Customers recognizes interest and penalties on unrecognized tax benefits in other expense.

Deferred income taxes reflect temporary differences in the recognition of revenue and expenses for tax reporting and financial statement purposes, principally because certain items are recognized in different periods for financial reporting and tax return purposes. The following represents Customers' deferred tax asset and liabilities as December 31, 2020 and 2019:

	December 31,	
(amounts in thousands)	2020	2019
Deferred tax assets		
Allowance for credit losses on loans and leases	$ 37,503	$ 14,616
Net operating losses	1,910	1,494
Compensation and benefits	8,654	5,839
Cash flow hedge	10,703	5,557
Section 197 intangibles	1,373	1,196
Deferred income	1,419	1,182
Lease liability	4,972	5,523
Other	2,631	1,307
Total gross deferred tax assets	69,165	36,714
Less: valuation allowance	(994)	(486)
Net deferred tax assets	68,171	36,228
Deferred tax liabilities		
Fair value adjustments on acquisitions	(570)	(506)
Bank premises and equipment	(5,546)	(6,074)
Tax qualified lease adjustments	(38,527)	(30,496)
Right of use asset	(4,598)	(5,232)
Net unrealized gains on securities	(8,194)	(5,020)
Other	(2,600)	(640)
Total deferred tax liabilities	(60,035)	(47,968)
Net deferred tax asset/(liability)	$ 8,136	$ (11,740)

The net deferred tax asset at December 31, 2020 is recorded in other assets and the net deferred tax liability at December 31, 2019 is recorded in other liabilities.

Customers had approximately $4.4 million of federal and state net operating loss carryovers subject to the annual limitation under Internal Revenue code Section 382 at December 31, 2020, that begin to expire in 2027. Customers also has state net operating loss carryovers for some states that begin to expire in 2037. Customers believes it is more likely than not the benefit of these state net operating loss carryovers generated by BankMobile Technologies, Inc. will not be realized. As such, there is a valuation allowance on the deferred tax assets of the jurisdictions in which the net operating losses relate.

Customers is subject to U.S. federal income tax as well as income tax in various state and local taxing jurisdictions. Generally, Customers is no longer subject to examination by federal, state, and local taxing authorities for years prior to the year ended December 31, 2017. Customers is currently under audit by New York for the 2015-2017 tax years and by New York City for the 2016-2017 tax years. Customers believes that the resolution of these examinations will not have a material effect on the consolidated financial statements.

NOTE 16 – TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL SHAREHOLDERS

Customers has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families and affiliated companies (commonly referred to as related parties). The activity relating to loans to such persons was as follows:

	For the Years Ended December 31,		
(amounts in thousands)	2020	2019	2018
Balance as of December 31,	$ —	$ 5	$ 0
Additions	2	47	27
Repayments	(2)	(52)	(22)
Balance as of December 31,	$ —	$ —	$ 5

As of December 31, 2020, Customers Bank had an outstanding commitment to a related party to provide a letter of credit in the amount of $25 thousand. As of December 31, 2019 and 2018, Customers Bank had an outstanding commitment to a related party to provide a letter of credit in the amount of $0.5 million.

Some current directors, nominees for director and executive officers of Customers and entities or organizations in which they were executive officers or the equivalent or owners of more than 10% of the equity, were customers of and had transactions with or involving Customers in the ordinary course of business during the fiscal year ended December 31, 2020. None of these transactions involved amounts in excess of 5% of Customers' gross revenues during 2020, nor was Customers indebted to any of the foregoing persons or entities in an aggregate amount in excess of 5% of Customers' total assets at December 31, 2020. Additional transactions with such persons and entities may be expected to take place in the ordinary course of business in the future.

At December 31, 2020 and 2019, Customers had approximately $8.0 million and $9.8 million, respectively, in deposits from related parties, including directors and certain executive officers.

NOTE 17 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Customers is involved with financial instruments and other commitments with off-balance sheet risks. Financial instruments with off-balance sheet risks are incurred in the normal course of business to meet the financing needs of the Bank's customers. These financial instruments include commitments to extend credit, including unused portions of lines of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheet.

With commitments to extend credit, exposures to credit loss in the event of non-performance by the other party to the financial instrument is represented by the contractual amount of those instruments. The same credit policies are used in making commitments and conditional obligations as for on-balance sheet instruments. Because they involve credit risk similar to extending a loan and lease, commitments to extend credit are subject to the Bank’s credit policy and other underwriting standards.

As of December 31, 2020 and 2019, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	December 31,	
(amounts in thousands)	2020	2019
Commitments to fund loans and leases	$ 262,153	$ 261,902
Unfunded commitments to fund mortgage warehouse loans	1,933,067	1,378,364
Unfunded commitments under lines of credit and credit cards	1,009,031	1,065,474
Letters of credit	27,166	48,856
Other unused commitments	1,842	2,736

Commitments to fund loans and leases, unfunded commitments to fund mortgage warehouse loans, unfunded commitments under lines of credit, letters of credit, and credit cards are agreements to extend credit to or for the benefit of a customer in the ordinary course of the Bank's business.

Commitments to fund loans and leases and unfunded commitments under lines of credit may be obligations of the Bank as long as there is no violation of any condition established in the contract. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if the Bank deems it necessary upon extension of credit, is based upon management’s credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Mortgage warehouse loan commitments are agreements to fund the pipelines of mortgage banking businesses from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans are insured or guaranteed by the U.S. government through one of its programs such as FHA, VA, or are conventional loans eligible for sale to Fannie Mae and Freddie Mac. These commitments generally fluctuate monthly based on changes in interest rates, refinance activity, new home sales and laws and regulation.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit may obligate the Bank to fund draws under those letters of credit whether or not a customer continues to meet the conditions of the extension of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan and lease facilities to customers. The current amount of liabilities as of December 31, 2020 and 2019 for guarantees under standby letters of credit issued was not material.

Allowance For Credit Losses on Lending- Related Commitments

As described in Note 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, ACL on lending related commitments is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which Customers is exposed to credit risk resulting from a contractual obligation to extend credit. No ACL is recognized if Customers has the unconditional right to cancel the obligation. Off-balance-sheet credit commitments primarily consist of amounts available under outstanding lines of credit and letters of credit disclosed above. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance-sheet exposure. Customers estimates the expected credit losses for undrawn or unfunded commitments using a usage given default calculation. The lifetime loss rates for off-balance sheet credit exposures are calculated in the same manner as on-balance sheet credit exposures, using the same models and economic forecasts, adjusted for the estimated likelihood that funding will occur. Customers recorded $3.4 million of ACL for lending related commitments upon its adoption of ASC 326 and recognized a benefit of $1.1 million during 2020 resulting in an ACL of $2.3 million as of December 31, 2020. The ACL on lending-related commitments is recorded in accrued interest payable and other liabilities in the consolidated balance sheet and the credit loss expense is recorded as a provision for credit losses within other non-interest expense in the consolidated income statement.

NOTE 18 – REGULATORY CAPITAL

The Bank and the Bancorp are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Customers' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and Bancorp must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In first quarter 2020, U.S. federal banking regulatory agencies permitted banking organizations to phase-in, for regulatory capital purposes, the day-one impact of the new CECL accounting rule on retained earnings over a period of three years. As part of its response to the impact of COVID-19, on March 31, 2020, the U.S. federal banking regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule allows banking organizations to delay for two years 100% of the day-one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. Customers has elected to adopt the interim final rule, which is reflected in the regulatory capital data presented below.

In April 2020, the U.S. federal banking regulatory agencies issued an interim final rule that permits banks to exclude the impact of participating in the SBA PPP program in their regulatory capital ratios. Specifically, PPP loans are zero percent risk weighted and a bank can exclude all PPP loans pledged as collateral to the PPPLF from its average total consolidated assets for purposes of calculating the Tier 1 capital to average assets ratio (i.e. leverage ratio). Customers applied this regulatory guidance in the calculation of its regulatory capital ratios presented below.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and Tier 1 capital to average assets (as defined in the regulations). At December 31, 2020 and 2019, the Bank and the Bancorp satisfied all capital requirements to which they were subject.

Generally, to comply with the regulatory definition of adequately capitalized, or well capitalized, respectively, or to comply with the Basel III capital requirements, an institution must at least maintain the common equity Tier 1, Tier 1 and total risk-based capital ratios and the Tier 1 leverage ratio in excess of the related minimum ratios set forth in the following table:

			Minimum Capital Levels to be Classified as:					
	Actual		Adequately Capitalized		Well Capitalized		Basel III Compliant	
(amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020								
Common equity Tier 1 (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 954,839	8.079 %	$ 531,844	4.500 %	N/A	N/A	$ 827,312	7.000 %
Customers Bank	$ 1,254,082	10.615 %	$ 531,639	4.500 %	$ 767,923	6.500 %	$ 826,994	7.000 %
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 1,172,310	9.919 %	$ 709,125	6.000 %	N/A	N/A	$ 1,004,594	8.500 %
Customers Bank	$ 1,254,082	10.615 %	$ 708,852	6.000 %	$ 945,136	8.000 %	$ 1,004,207	8.500 %
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 1,401,119	11.855 %	$ 945,500	8.000 %	N/A	N/A	$ 1,240,969	10.500 %
Customers Bank	$ 1,424,791	12.060 %	$ 945,136	8.000 %	$ 1,181,421	10.000 %	$ 1,240,492	10.500 %
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$ 1,172,310	8.597 %	$ 545,485	4.000 %	N/A	N/A	$ 545,485	4.000 %
Customers Bank	$ 1,254,082	9.208 %	$ 544,758	4.000 %	$ 680,947	5.000 %	$ 544,758	4.000 %
December 31, 2019								
Common equity Tier 1 (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 821,810	7.984 %	$ 463,211	4.500 %	N/A	N/A	$ 720,551	7.000 %
Customers Bank	$ 1,164,652	11.323 %	$ 462,842	4.500 %	$ 668,549	6.500 %	$ 719,976	7.000 %
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 1,039,281	10.096 %	$ 617,615	6.000 %	N/A	N/A	$ 874,955	8.500 %
Customers Bank	$ 1,164,652	11.323 %	$ 617,122	6.000 %	$ 822,829	8.000 %	$ 874,256	8.500 %
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$ 1,256,309	12.205 %	$ 823,487	8.000 %	N/A	N/A	$ 1,080,827	10.500 %
Customers Bank	$ 1,330,155	12.933 %	$ 822,829	8.000 %	$ 1,028,537	10.000 %	$ 1,079,964	10.500 %
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$ 1,039,281	9.258 %	$ 449,026	4.000 %	N/A	N/A	$ 449,026	4.000 %
Customers Bank	$ 1,164,652	10.379 %	$ 448,851	4.000 %	$ 561,064	5.000 %	$ 448,851	4.000 %

The Basel III Capital Rules require that we maintain a 2.500% capital conservation buffer with respect to each of CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

NOTE 19 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Customers uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. ASC Topic 825, *Financial Instruments*, requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For Customers, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. Many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. For fair value disclosure purposes, Customers utilized certain fair value measurement criteria under ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") as explained below.

In accordance with ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for Customers' various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, focusing on an exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

The fair value guidance also establishes a fair value hierarchy and describes the following three levels used to classify fair value measurements:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair values of Customers' financial instruments as of December 31, 2020 and 2019:

Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities:

The fair values of equity securities, available for sale debt securities and debt securities reported at fair value based on a fair value option election are determined by obtaining quoted market prices on nationally recognized and foreign securities exchanges (Level 1), quoted prices in markets that are not active (Level 2), and matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or internally and externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3). These assets are classified as Level 1, 2 or 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale - Residential mortgage loans (fair value option):

Customers generally estimates the fair values of residential mortgage loans held for sale based on commitments on hand from investors within the secondary market for loans with similar characteristics. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans receivable - Commercial mortgage warehouse loans (fair value option):

The fair value of commercial mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by mortgage companies as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not generally expected to be recognized because at inception of the transaction the underlying mortgage loans have already been sold to an approved investor. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of under 30 days from purchase to sale. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivatives (assets and liabilities):

The fair values of interest rate swaps, interest rate caps and credit derivatives are determined using models that incorporate readily observable market data into a market standard methodology. This methodology nets the discounted future cash receipts and the discounted expected cash payments. The discounted variable cash receipts and payments are based on expectations of future interest rates derived from observable market interest rate curves. In addition, fair value is adjusted for the effect of nonperformance risk by incorporating credit valuation adjustments for Customers and its counterparties. These assets and liabilities are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The fair values of the residential mortgage loan commitments are derived from the estimated fair values that can be generated when the underlying mortgage loan is sold in the secondary market. Customers generally uses commitments on hand from third-party investors to estimate an exit price and adjusts for the probability of the commitment being exercised based on Customers' internal experience (i.e., pull-through rate). These assets and liabilities are classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivative assets and liabilities are presented in "Other assets" and "Accrued interest payable and other liabilities" on the consolidated balance sheet.

Financial Instruments Recorded at Fair Value on a Nonrecurring Basis

Collateral-dependent loans:

Collateral-dependent loans are those loans that are accounted for under ASC 326, in which the Bank has measured impairment generally based on the fair value of the loan’s collateral or discounted cash flow analysis. Fair value is generally determined based upon independent third-party appraisals of the properties that collateralize the loans, discounted cash flows based upon the expected proceeds, sales agreements or letters of intent with third parties. These assets are generally classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other real estate owned:

The fair value of OREO is determined by using appraisals, which may be discounted based on management’s review and changes in market conditions or sales agreements with third parties. All appraisals must be performed in accordance with the Uniform Standards of Professional Appraisal Practice. Appraisals are certified to the Bank and performed by appraisers on the Bank’s approved list of appraisers. Evaluations are completed by a person independent of management. The content of the appraisal depends on the complexity of the property. Appraisals are completed on a “retail value” and an “as is value”. These assets are classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The following information should not be interpreted as an estimate of Customers' fair value in its entirety because fair value calculations are only provided for a limited portion of Customers' assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making these estimates, comparisons between Customers' disclosures and those of other companies may not be meaningful.

The estimated fair values of Customers' financial instruments at December 31, 2020 and 2019 were as follows:

			Fair Value Measurements at December 31, 2020		
(amounts in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	$ 693,354	$ 693,354	$ 693,354	$ —	$ —
Debt securities, available for sale	1,206,431	1,206,431	—	1,206,431	—
Equity securities	3,854	3,854	3,854	—	—
Loans held for sale	79,086	79,086	—	78,443	643
Total loans and leases receivable, net of allowance for credit losses on loans and leases	15,608,989	16,222,202	—	3,616,432	12,605,770
FHLB, Federal Reserve Bank and other restricted stock	71,368	71,368	—	71,368	—
Derivatives	54,223	54,223	—	54,023	200
Liabilities:					
Deposits	$ 11,309,929	$ 11,312,494	$ 10,657,998	$ 654,496	$ —
FRB PPP Liquidity Facility	4,415,016	4,415,016	—	4,415,016	—
Federal funds purchased	250,000	250,000	250,000	—	—
FHLB advances	850,000	852,442	—	852,442	—
Other borrowings	124,037	129,120	—	129,120	—
Subordinated debt	181,394	193,119	—	193,119	—
Derivatives	98,164	98,164	—	98,164	—

			Fair Value Measurements at December 31, 2019		
(amounts in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	$ 212,505	$ 212,505	$ 212,505	$ —	$ —
Debt securities, available for sale	577,198	577,198	—	577,198	—
Interest-only GNMA securities	16,272	16,272	—	—	16,272
Equity securities	2,406	2,406	2,406	—	—
Loans held for sale	486,328	486,328	—	2,130	484,198
Total loans and leases receivable, net of allowance for credit losses on loans and leases	9,508,367	9,853,037	—	2,245,758	7,607,279
FHLB, Federal Reserve Bank, and other restricted stock	84,214	84,214	—	84,214	—
Derivatives	23,608	23,608	—	23,529	79
Liabilities:					
Deposits	$ 8,648,936	$ 8,652,340	$ 6,980,402	$ 1,671,938	$ —
Federal funds purchased	538,000	538,000	538,000	—	—
FHLB advances	850,000	852,162	—	852,162	—
Other borrowings	123,630	127,603	—	127,603	—
Subordinated debt	181,115	192,217	—	192,217	—
Derivatives	45,939	45,939	—	45,939	—

For financial assets and liabilities measured at fair value on a recurring and non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and 2019 were as follows:

	December 31, 2020			
	Fair Value Measurements at the End of the Reporting Period Using			
(amounts in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured at Fair Value on a Recurring Basis:				
Assets				
Available for sale securities:				
Asset-backed securities	$ —	$ 377,145	$ —	$ 377,145
US Government agency securities	—	20,034	—	20,034
Agency-guaranteed mortgage-backed securities	—	63,091	—	63,091
Agency-guaranteed collateralized mortgage obligations	—	161,767	—	161,767
Collateralized loan obligations	—	32,367	—	32,367
Corporate notes	—	396,744	—	396,744
Private label collateralized mortgage obligations	—	136,992	—	136,992
State and political subdivision debt securities	—	18,291	—	18,291
Equity securities	3,854	—	—	3,854
Derivatives	—	54,023	200	54,223
Loans held for sale – fair value option	—	5,509	—	5,509
Loans receivable, mortgage warehouse – fair value option	—	3,616,432	—	3,616,432
Total assets – recurring fair value measurements	$ 3,854	$ 4,882,395	$ 200	$ 4,886,449
Liabilities				
Derivatives	$ —	$ 98,164	$ —	$ 98,164
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Loans held for sale	$ —	$ 55,683	$ —	$ 55,683
Collateral-dependent loans	—	17,251	3,867	21,118
Other real estate owned	—	—	35	35
Total assets – nonrecurring fair value measurements	$ —	$ 72,934	$ 3,902	$ 76,836

(amounts in thousands)	December 31, 2019 Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured at Fair Value on a Recurring Basis:				
Assets				
Available for sale securities:				
Agency-guaranteed residential mortgage-backed securities	$ —	$ 278,321	$ —	$ 278,321
Corporate notes	—	298,877	—	298,877
Interest-only GNMA securities	—	—	16,272	16,272
Equity securities	2,406	—	—	2,406
Derivatives	—	23,529	79	23,608
Loans held for sale – fair value option	—	2,130	—	2,130
Loans receivable, mortgage warehouse – fair value option	—	2,245,758	—	2,245,758
Total assets - recurring fair value measurements	$ 2,406	$ 2,848,615	$ 16,351	$ 2,867,372
Liabilities				
Derivatives	$ —	$ 45,939	$ —	$ 45,939
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of specific reserves of $852	$ —	$ —	$ 14,272	$ 14,272
Other real estate owned	—	—	78	78
Total assets – nonrecurring fair value measurements	$ —	$ —	$ 14,350	$ 14,350

The changes in residential mortgage loan commitments (Level 3 assets) measured at fair value on a recurring basis for the years ended December 31, 2020 and 2019 are summarized as follows in the table below. Additional information about residential mortgage loan commitments can be found in NOTE 20 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES.

(amounts in thousands)	Residential Mortgage Loan Commitments For the Years Ended December 31, 2020	2019
Balance at December 31,	$ 79	$ 69
Issuances	922	451
Settlements	(801)	(441)
Balance at December 31,	$ 200	$ 79

There were no transfers between levels during the years ended December 31, 2020 and 2019.

The following table summarizes financial assets and financial liabilities measured at fair value as of December 31, 2020 and 2019 on a recurring and nonrecurring basis for which Customers utilized Level 3 inputs to measure fair value. The unobservable Level 3 inputs noted below contain a level of uncertainty that may differ from what is realized in an immediate settlement of the assets. Therefore, Customers may realize a value higher or lower than the current estimated fair value of the assets. The interest-only GNMA securities were Level 3 assets measured at fair value on a recurring basis under a fair value option election.

	Quantitative Information about Level 3 Fair Value Measurements			
(dollars in thousands)	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (4)
December 31, 2020				
Collateral dependent loans – real estate	$ 2,928	Collateral appraisal (1)	Liquidation expenses (2)	8% - 8% (8%)
		Collateral appraisal (1)	Liquidation expenses (2)	7% - 8% (8%)
Collateral dependent loans – commercial & industrial	939	Business asset valuation (3)	Business asset valuation adjustments (4)	60% - 60% (60%)
Other real estate owned	35	Collateral appraisal (1)	Liquidation expenses (2)	8% - 9% (9%)
Residential mortgage loan commitments	200	Adjusted market bid	Pull-through rate	78% - 78% (78%)

(1) Obtained from approved independent appraisers. Appraisals are current and in compliance with credit policy. Customers does not generally discount appraisals. Fair value is also estimated based on sale agreements or letters of intent with third parties.
(2) Appraisals are adjusted by management for liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percentage of the appraisal.
(3) Business asset valuation obtained from independent party.
(4) Business asset valuations may be adjusted by management for qualitative factors including economic conditions and the condition of the business assets. The range and weighted average of the business asset adjustments are presented as a percent of the business asset valuation.

	Quantitative Information about Level 3 Fair Value Measurements			
(dollars in thousands)	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (4)
December 31, 2019				
		Collateral appraisal (1)	Liquidation expenses (2)	8% - 8% (8%)
Impaired loans – real estate	$ 12,767	Business asset valuation(3)	Business asset valuation adjustments (4)	34% - 45% (37%)
		Collateral appraisal (1)	Liquidation expenses (2)	8% - 8% (8%)
Impaired loans – commercial & industrial	1,505	Business asset valuation(3)	Business asset valuation adjustments (4)	8% - 50% (22%)
Interest-only GNMA securities	16,272	Discounted cash flow	Constant prepayment rate	9% - 14% (12%)
Other real estate owned	78	Collateral appraisal (1)	Liquidation expenses (2)	8% - 9% (9%)
Residential mortgage loan commitments	79	Adjusted market bid	Pull-through rate	85% - 85% (85%)

(1) Obtained from approved independent appraisers. Appraisals are current and in compliance with credit policy. Customers does not generally discount appraisals.
(2) Appraisals are adjusted by management for liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percentage of the appraisal.
(3) Business asset valuation obtained from independent party.
(4) Business asset valuations may be adjusted by management for qualitative factors including economic conditions and the condition of the business assets. The range and weighted average of the business asset adjustments are presented as a percent of the business asset valuation.

NOTE 20 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives of Using Derivatives

Customers is exposed to certain risks arising from both its business operations and economic conditions. Customers manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and durations of its assets and liabilities. Specifically, Customers enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the values of which are determined by interest rates. Customers' derivative financial instruments are used to manage differences in the amount, timing and duration of Customers' known or expected cash receipts and its known or expected cash payments principally related to certain borrowings and deposits. Customers also has interest-rate derivatives resulting from a service provided to certain qualifying customers, and therefore, they are not used to manage Customers' interest-rate risk in assets or liabilities. Customers manages a matched book with respect to its derivative instruments used in this customer service in order to minimize its net risk exposure resulting from such transactions.

Cash Flow Hedges of Interest-Rate Risk

Customers' objectives in using interest-rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, Customers primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for Customers making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The changes in the fair value of derivatives designated and qualifying as cash flow hedges are recorded in accumulated other comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged item affects earnings. To date, such derivatives were used to hedge the variable cash flows associated with the forecasted issuances of debt and a certain variable-rate deposit relationship.

Customers discontinues cash flow hedge accounting if it is probable the forecasted hedged transactions will not occur in the initially identified time period. At such time, the associated gains and losses deferred in accumulated other comprehensive income (loss) are reclassified immediately into earnings and any subsequent changes in the fair value of such derivatives are recognized directly in earnings.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on Customers' variable-rate debt and a variable-rate deposit relationship. Customers expects to reclassify $14.8 million of losses from accumulated other comprehensive income (loss) to interest expense during the next 12 months.

Customers is hedging its exposure to the variability in future cash flows for forecasted transactions (3-month FHLB advances) and a variable rate deposit relationship over a maximum period of 59 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

At December 31, 2020, Customers had five outstanding interest rate derivatives with notional amounts totaling $1.1 billion that were designated as cash flow hedges of interest-rate risk. At December 31, 2019, Customers had four outstanding interest rate derivatives with notional amounts totaling $725.0 million that were designated as cash flow hedges of interest-rate risk. The outstanding cash flow hedges expire between June 2021 and May 2026.

Fair Value Hedges of Benchmark Interest-Rate Risk

Customers is exposed to changes in the fair value of certain of its fixed rate AFS debt securities due to changes in the benchmark interest rate. Customers uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate such as the Fed Funds Effective Swap Rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for Customers receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

At December 31, 2020, Customers had 24 outstanding interest rate derivatives with notional amounts totaling $272.3 million that were designated as fair value hedges of certain available for sale debt securities. At December 31, 2019, Customers had no outstanding interest rate derivatives designated as fair value hedges.

As of December 31, 2020, the following amounts were recorded on the consolidated balance sheet related to cumulative basis adjustments for fair value hedges.

(amounts in thousands)	Amortized Cost		Cumulative Amount of Fair Value Hedging Adjustment to Hedged Items	
	At December 31,		At December 31,	
	2020	2019	2020	2019
AFS debt securities	$ 272,159	$ —	$ 741	$ —

Derivatives Not Designated as Hedging Instruments

Customers executes interest rate swaps (typically the loan customers will swap a floating-rate loan for a fixed-rate loan) and interest rate caps with commercial banking customers to facilitate their respective risk management strategies. The customer interest rate swaps and interest rate caps are simultaneously offset by interest rate swaps and interest rate caps that Customers executes with a third party in order to minimize interest-rate risk exposure resulting from such transactions. As the interest rate swaps and interest rate caps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and caps and the offsetting third-party market swaps and caps are recognized directly in earnings. At December 31, 2020, Customers had 155 interest rate swaps with an aggregate notional amount of $1.4 billion and twelve interest rate caps with an aggregate notional amount of $204.9 million related to this program. At December 31, 2019, Customers had 140 interest rate swaps with an aggregate notional amount of $1.4 billion and four interest rate caps with an aggregate notional amount of $78.6 million related to this program.

Customers enters into residential mortgage loan commitments in connection with its consumer mortgage banking activities to fund mortgage loans at specified rates and times in the future. These commitments are short-term in nature and generally expire in 30 to 60 days. The residential mortgage loan commitments that relate to the origination of mortgage loans that will be held for sale are considered derivative instruments under applicable accounting guidance and are reported at fair value, with changes in fair value recorded directly in earnings. At December 31, 2020 and 2019, Customers had an outstanding notional balance of residential mortgage loan commitments of $11.9 million and $4.5 million, respectively.

Customers has also purchased and sold credit derivatives to either hedge or participate in the performance risk associated with some of its counterparties. These derivatives are not designated as hedging instruments and are reported at fair value, with changes in fair value reported directly in earnings. At December 31, 2020 and 2019, Customers had outstanding notional balances of credit derivatives of $177.2 million and $167.1 million, respectively.

Fair Value of Derivative Instruments on the Balance Sheet

The following table presents the fair value of Customers' derivative financial instruments as well as their presentation on the consolidated balance sheets at December 31, 2020 and 2019.

	December 31, 2020			
	Derivative Assets		Derivative Liabilities	
(amounts in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	$ 196	Other liabilities	$ 40,765
Total		$ 196		$ 40,765
Derivatives designated as fair value hedges:				
Interest rate swaps	Other assets	$ —	Other liabilities	$ 741
Total		$ —		$ 741
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 53,455	Other liabilities	$ 56,209
Interest rate caps	Other assets	46	Other liabilities	46
Credit contracts	Other assets	326	Other liabilities	403
Residential mortgage loan commitments	Other assets	200	Other liabilities	—
Total		$ 54,027		$ 56,658

(amounts in thousands)	December 31, 2019			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	$ —	Other liabilities	$ 21,374
Total		$ —		$ 21,374
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 23,301	Other liabilities	$ 24,797
Interest rate caps	Other assets	9	Other liabilities	9
Credit contracts	Other assets	219	Other liabilities	(241)
Residential mortgage loan commitments	Other assets	79	Other liabilities	—
Total		$ 23,608		$ 24,565

Effect of Derivative Instruments on Net Income

The following table presents amounts included in the consolidated statements of income related to derivatives designated as fair value hedges and derivatives not designated as hedges for the years ended December 31, 2020, 2019 and 2018.

(amounts in thousands)	Income Statement Location	Amount of Income Recognized in Earnings For the Years Ended December 31,		
		2020	2019	2018
Derivatives designated as fair value hedges:				
Recognized on interest rate swaps	Net interest income	$ 741	$ —	$ —
Recognized on hedged AFS debt securities	Net interest income	(741)	—	—
Total		$ —	$ —	$ —
Derivatives not designated as hedging instruments:				
Interest rate swaps [(1)]	Other non-interest income	$ (5,482)	$ 2,549	$ 3,409
Interest rate caps	Other non-interest income	—	24	—
Credit contracts	Other non-interest income	1,531	589	127
Residential mortgage loan commitments	Mortgage banking income	121	10	9
Total		$ (3,830)	$ 3,172	$ 3,545

(1) Includes income recognized from discontinued cash flow hedges for the year ended December 31, 2018.

Effect of Derivative Instruments on Comprehensive Income

The following table presents the effect of Customers' derivative financial instruments on comprehensive income for the years ended December 31, 2020, 2019 and 2018.

	For the Year Ended December 31,						
	Amount of Gain (Loss) Recognized in OCI on Derivatives [(1)]			Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income		
(amounts in thousands)	2020	2019	2018		2020	2019	2018
Derivatives in cash flow hedging relationships:							
Interest rate swaps	$ (23,227)	$ (15,656)	$ 1,477	Interest expense	$ (13,092)	$ (1,407)	$ 95
				Other non-interest income [(2)]	—	—	2,822
					$ (13,092)	$ (1,407)	$ 2,917

(1) Amounts presented are net of taxes. See Note 4 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) for the total effect on other comprehensive income (loss) from derivatives designated as cash flow hedges for the periods presented.
(2) Includes income recognized from discontinued cash flow hedges.

Credit-risk-related Contingent Features

By entering into derivative contracts, Customers is exposed to credit risk. The credit risk associated with derivatives executed with customers is the same as that involved in extending the related loans and is subject to the same standard credit policies. To mitigate the credit-risk exposure to major derivative dealer counterparties, Customers only enters into agreements with those counterparties that maintain credit ratings of high quality.

Agreements with major derivative dealer counterparties contain provisions whereby default on any of Customers' indebtedness would be considered a default on its derivative obligations. Customers also has entered into agreements that contain provisions under which the counterparty could require Customers to settle its obligations if Customers fails to maintain its status as a well/adequately capitalized institution. As of December 31, 2020, the fair value of derivatives in a net liability position (which includes accrued interest but excludes any adjustment for nonperformance-risk) related to these agreements was $102.1 million. In addition, Customers, which has collateral posting thresholds with certain of these counterparties and at December 31, 2020 had posted $97.6 million of cash as collateral. Customers records cash posted as collateral as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of other assets.

Disclosures about Offsetting Assets and Liabilities

The following tables present derivative instruments that are subject to enforceable master netting arrangements. Customers' interest rate swaps and interest rate caps with institutional counterparties are subject to master netting arrangements and are included in the table below. Interest rate swaps and interest rate caps with commercial banking customers and residential mortgage loan commitments are not subject to master netting arrangements and are excluded from the table below. Customers has not made a policy election to offset its derivative positions.

		Gross Amounts Not Offset in the Consolidated Balance Sheet		
(amounts in thousands)	Gross Amounts Recognized on the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received/(Posted)	Net Amount
December 31, 2020				
Interest rate derivative assets with institutional counterparties	$ 199	$ —	$ —	$ 199
Interest rate derivative liabilities with institutional counterparties	$ 97,641	$ —	$ (97,641)	$ —

(amounts in thousands)	Gross Amounts Recognized on the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash Collateral Received/(Posted)	Net Amount
December 31, 2019				
Interest rate derivative assets with institutional counterparties	$ 432	$ —	$ —	$ 432
Interest rate derivative liabilities with institutional counterparties	$ 45,727	$ —	$ (45,727)	$ —

NOTE 21 — LOSS CONTINGENCIES

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the consolidated financial statements that are not currently accrued for. However, in light of the uncertainties inherent in these matters, it is possible that the ultimate resolution may have a material adverse effect on Customers' results of operations for a particular period, and future changes in circumstances or additional information could result in accruals or resolution in excess of established accruals, which could adversely affect Customers' results of operations, potentially materially.

Lifestyle Healthcare Group, Inc. Matter

On January 9, 2017, Lifestyle Healthcare Group, Inc., et al ("Plaintiffs") filed a Complaint captioned *Lifestyle Healthcare Group, Inc.; Fred Rappaport; Victoria Rappaport; Lifestyle Management Group, LLC Trading as Lifestyle Real Estate I, LP; Lifestyle Real Estate I GP, LLC; Daniel Muck; Lifestyle Management Group, LLC; Lifestyle Management Group, LLC Trading as Lifestyle I, LP D/B/A Lifestyle Medspa, Plaintiffs ("Lifestyle Parties") v. Customers Bank, Robert White; Saldutti Law, LLC a/k/a Saldutti Law Group; Robert L. Saldutti, Esquire; and Michael Fuoco, Civil Action No. 01206, in the First Judicial District of Pennsylvania, Court of Common Pleas of Philadelphia*. In this Complaint, the Plaintiffs generally allege wrongful use of civil proceedings and abuse of process in connection with a case filed and later dismissed in federal court, titled, *Customers Bank v. Fred Rappaport, et al., U.S.D.C.E.D. Pa., No. 15-6145.* On January 30, 2017, Customers Bank filed Preliminary Objections to the Complaint seeking dismissal of Plaintiff's claims against Customers Bank and Robert White, named as co-defendants. In response to the Preliminary Objections, Lifestyle filed an Amended Complaint against Customers Bank and Robert White. Customers Bank filed Preliminary Objections to the Second Amended Complaint seeking dismissal of Plaintiff's claim against Customers Bank and Robert White, named as co-defendants. The Court dismissed certain counts and determined to allow certain other counts to proceed. On September 17, 2020, a Stipulation of Dismissal with Prejudice was filed with the Court as a result of the voluntary resolution of the matter by and between Plaintiffs and defendants, Customers Bank, Robert White and Michael Fuoco only.

United States Department of Education Matter

In third quarter 2018, Customers received a Final Program Review Determination ("FPRD") letter dated September 5, 2018 from the ED regarding a focused program review of Higher One's/Customers Bank's administration, as a third party servicer, of the programs authorized pursuant to Title IV of the Higher Education Act of 1965. The ED program review covered the award years beginning in 2013 through the FPRD issuance date, including the time period when Higher One was acting as the third party servicer prior to Customers' acquisition of the Disbursement business on June 15, 2016. The FPRD determined that, with respect to students enrolled at specified partner institutions, Higher One/Customers did not provide convenient fee-free access to ATMs or bank branch offices in such locations as required by the ED's cash management regulations. Those regulations, which were in effect during the period covered by the program review and were revised during that period, seek, among other purposes, to ensure that students can make fee-free cash withdrawals. The FPRD determined that students incurred prohibited costs in accessing Title IV credit balance funds, and the FPRD classifies those costs as financial liabilities of Customers. The FPRD also requires Customers to take prospective action to increase ATM access for students at certain of its partner institutions. Customers disagreed with the FPRD and appealed the asserted financial liabilities of $6.5 million, and a request for review has been submitted to trigger an administrative process before the ED's Office of Hearing and Appeals.

On March 26, 2020, the ED and Customers filed a Joint Motion to Dismiss with Prejudice (the "Joint Motion") with the United States Department of Education. The Joint Motion states that the ED and Customers reached an agreement that resolves the liabilities at issue in the appeal. The Joint Motion was granted on April 27, 2020. As part of the settlement, the liabilities assessed in the FPRD were reduced to $3.0 million (the "settlement amount"). Customers had previously recorded a liability in the amount of $1.0 million during third quarter 2019 and increased its liability by an additional $1.0 million in first quarter 2020. The remaining $1.0 million is expected to be funded from funds in an escrow account set-up at the time of Customers' acquisition of the Disbursement business from Higher One in 2016.

Bureau of the Fiscal Service Notice of Direct Debit (U.S. Treasury Check Reclamation)

On June 21, 2019, Customers received a Notice of Direct Debit (U.S. Treasury Check Reclamation) from the Bureau of the Fiscal Service (“Reclamation Notice”). The Reclamation Notice represented a demand to Customers for the return of funds on a U.S. Treasury check for approximately $5.4 million. Customers filed a written protest pursuant to Code of Federal Regulations, Title 31, Chapter II, Part 240, which resulted in a suspension of the direct debit by the Bureau of the Fiscal Service. On January 31, 2020, Customers received an Abandonment Notice from the Bureau of Fiscal Service instructing Customers to disregard the Notice of Direct Debit as the Bureau of Fiscal Service would not be seeking reclamation of these funds.

Specialty’s Café Bakery, Inc. Matter

On May 27, 2020, the appointed Chapter 7 Trustee for Specialty’s Café Bakery, Inc. (“Debtor”) filed a voluntary petition for relief under Chapter 7 of the Bankruptcy Code in the United Stated Bankruptcy Court for the Central District of California. On October 28, 2020, the Trustee, as plaintiff, filed her amended adversary complaint (“Adversary Complaint”) against Customers Bank (“Bank”) and the SBA seeking to avoid and recover for the benefit of the Debtor’s estate and its creditors the payment made by the Debtor to Customers Bank in the amount of $8.1 million in satisfaction of a Payroll Protection Program loan made by Customers Bank to the Debtor (the “PPP Loan”). The Trustee seeks to avoid and recover the entire PPP Loan Payment from the Bank under the authority provided in 11 U.S.C. §547 and §550, which together permit a trustee of a bankruptcy debtor to avoid and recover, for a more equitable distribution among all creditors, certain transfers made within ninety (90) days before the filing of the bankruptcy petition. The Bank intends to vigorously defend itself against the Trustee’s Adversary Complaint and is currently unable to reasonably determine the likelihood of loss nor estimate a possible range of loss.

NOTE 22 – CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The following tables present the condensed financial statements for Customers Bancorp, Inc. (parent company only) as of December 31, 2020 and 2019, and for the years ended December 31, 2020, 2019 and 2018.

Balance Sheets

(amounts in thousands)	December 31, 2020	December 31, 2019
Assets		
Cash in bank subsidiary	$ 110,626	$ 62,643
Investments in and receivables due from bank subsidiary	1,198,857	1,178,166
Investments in and receivables due from non-bank subsidiaries	3,853	2,406
Other assets	970	6,583
Total assets	$ 1,314,306	$ 1,249,798
Liabilities and Shareholders' equity		
Borrowings	$ 196,259	$ 195,670
Other liabilities	961	1,333
Total liabilities	197,220	197,003
Shareholders' equity	1,117,086	1,052,795
Total Liabilities and Shareholders' Equity	$ 1,314,306	$ 1,249,798

Income and Comprehensive Income Statements

(amounts in thousands)	For the Years Ended December 31, 2020	2019	2018
Operating income:			
Other, including dividends from bank subsidiary	$ 65,000	$ 70,000	$ 45,422
Total operating income	65,000	70,000	45,422
Operating expense:			
Interest	9,681	5,425	8,178
Other	1,498	744	1,722
Total operating expense	11,179	6,169	9,900
Income before taxes and undistributed income of subsidiaries	53,821	63,831	35,522
Income tax benefit	2,703	1,391	2,335
Income before undistributed income of subsidiaries	56,524	65,222	37,857
Equity in undistributed income of subsidiaries	76,054	14,105	33,838
Net income	132,578	79,327	71,695
Preferred stock dividends	14,041	14,459	14,459
Net income available to common shareholders	118,537	64,868	57,236
Comprehensive income	$ 128,064	$ 100,740	$ 50,730

One of the principal sources of the Bancorp's liquidity is the dividends it receives from the Bank, which may be impacted by the following: bank-level capital needs, laws and regulations, corporate policies, contractual restrictions and other factors. There are statutory and regulatory limitations on the ability of the Bank to pay dividends or make other capital distributions or to extend credit to the Bancorp or its non-bank subsidiaries.

Statements of Cash Flows

(amounts in thousands)	For the Years Ended December 31, 2020	2019	2018
Cash Flows from Operating Activities			
Net income	$ 132,578	$ 79,327	$ 71,695
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries, net of dividends received from Bank	(76,054)	(14,105)	(33,838)
(Increase) decrease in other assets	5,613	(3,166)	(256)
Increase (decrease) in other liabilities	1,088	1,775	(251)
Net Cash Provided By (Used in) Operating Activities	63,225	63,831	37,350
Cash Flows from Investing Activities			
Payments for investments in and advances to subsidiaries	(26)	(74,767)	(29)
Net Cash Provided By (Used in) Investing Activities	(26)	(74,767)	(29)
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	923	2,150	3,585
Proceeds from issuance of subordinated long-term debt	—	72,030	—
Proceed from issuance of other long-term borrowings	—	24,477	—
Repayments of other borrowings	—	(25,000)	(63,250)
Exercise and redemption of warrants	—	—	112
Purchase of treasury stock	—	(571)	(12,976)
Payments of employee taxes withheld from share-based awards	(2,063)	(1,732)	(880)
Preferred stock dividends paid	(14,076)	(14,459)	(14,459)
Net Cash Provided by (Used in) Financing Activities	(15,216)	56,895	(87,868)
Net Increase (Decrease) in Cash and Cash Equivalents	47,983	45,959	(50,547)
Cash and Cash Equivalents - Beginning Balance	62,643	16,684	67,231
Cash and Cash Equivalents - Ending Balance	$ 110,626	$ 62,643	$ 16,684

NOTE 23 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents selected quarterly data for the years ended December 31, 2020 and 2019.

(amounts in thousands, except per share data)	2020 December 31	September 30	June 30	March 31
Quarter Ended				
Interest income	$ 153,093	$ 139,650	$ 125,218	$ 125,343
Interest expense	30,147	32,211	33,236	44,022
Net interest income	122,946	107,439	91,982	81,321
Provision for credit losses on loans and leases	(2,913)	12,955	20,946	31,786
Non-interest income	23,775	33,793	22,236	21,930
Non-interest expenses	71,164	65,561	63,506	66,459
Income before income taxes	78,470	62,716	29,766	5,006
Provision for income taxes	22,225	12,201	7,048	1,906
Net income	56,245	50,515	22,718	3,100
Preferred stock dividends	3,414	3,430	3,581	3,615
Net income (loss) available (attributable) to common shareholders	$ 52,831	$ 47,085	$ 19,137	$ (515)
Earnings per common share:				
Basic earnings (loss) per common share	$ 1.67	$ 1.49	$ 0.61	$ (0.02)
Diluted earnings (loss) per common share	$ 1.65	$ 1.48	$ 0.61	$ (0.02)

(amounts in thousands, except per share data)	2019			
	December 31	September 30	June 30	March 31
Quarter Ended				
Interest income	$ 123,995	$ 126,718	$ 111,950	$ 101,075
Interest expense	46,402	50,983	47,271	41,771
Net interest income	77,593	75,735	64,679	59,304
Provision for credit losses on loans and leases	9,689	4,426	5,346	4,767
Non-interest income (1)	25,813	23,369	12,036	19,718
Non-interest expenses	58,740	59,592	59,582	53,984
Income before income taxes	34,977	35,086	11,787	20,271
Provision for income taxes	7,451	8,020	2,491	4,831
Net income	27,526	27,066	9,296	15,440
Preferred stock dividends	3,615	3,615	3,615	3,615
Net income available to common shareholders	$ 23,911	$ 23,451	$ 5,681	$ 11,825
Earnings per common share:				
Basic earnings per common share	$ 0.76	$ 0.75	$ 0.18	$ 0.38
Diluted earnings per common share	$ 0.75	$ 0.74	$ 0.18	$ 0.38

(1) The quarter ended June 30, 2019 included a $7.5 million pre-tax loss due to a shortfall in the fair value of interest-only GNMA securities acquired from a commercial mortgage warehouse customer.

NOTE 24 – BUSINESS SEGMENTS

Customers' segment financial reporting reflects the manner in which its chief operating decision makers allocate resources and assess performance. Management has determined that Customers' operations consist of two reportable segments - Customers Bank Business Banking and BankMobile. Each segment generates revenues, manages risk, and offers distinct products and services to targeted customers through different delivery channels. The strategy, marketing and analysis of these segments vary considerably.

The Customers Bank Business Banking segment is delivered predominately to commercial customers in Southeastern Pennsylvania, New York, New Jersey, Massachusetts, Rhode Island, New Hampshire, Washington, D.C., and Illinois through a single-point-of-contact business model and provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Lending and deposit gathering activities are focused primarily on privately held businesses, high-net-worth families, selected commercial real estate lending, commercial mortgage companies and equipment finance. Revenues are generated primarily through net interest income (the difference between interest earned on loans and leases, investments, and other interest earning assets and interest paid on deposits and other borrowed funds) and other non-interest income, such as mortgage warehouse transactional fees and BOLI.

The BankMobile segment provided state-of-the-art high-tech digital banking and disbursement services to consumers, students, and the "under banked" nationwide, along with "Banking as a Service" offerings with white label partners. BankMobile was a full-service fintech banking platform that is accessible to customers anywhere and anytime through the customer's smartphone or other web-enabled device. Revenues were generated primarily through interest income on consumer installment loans, interchange and card revenue, deposit and wire transfer fees and university fees. The majority of expenses for BankMobile were related to the segment's operation of the ongoing business acquired through the Disbursement business acquisition and costs associated with the development of white label products for its partners.

The following tables present the operating results for Customers' reportable business segments for the years ended December 31, 2020, 2019 and 2018. The segment financial results include directly attributable revenues and expenses. Consistent with the presentation of segment results to Customers' chief operating decision makers, overhead costs and preferred stock dividends are assigned to the Customers Bank Business Banking segment. The tax benefit assigned to BankMobile was based on an estimated effective tax rate of 24.18%, 22.55% and 24.56% for the years ended December 31, 2020, 2019 and 2018, respectively.

	For the Year Ended December 31, 2020		
(amounts in thousands)	Customers Bank Business Banking	BankMobile	Consolidated
Interest income [1]	$ 490,028	$ 53,276	$ 543,304
Interest expense	137,480	2,136	139,616
Net interest income	352,548	51,140	403,688
Provision for credit losses on loans and leases	51,708	11,066	62,774
Non-interest income	57,834	43,900	101,734
Non-interest expense	187,153	79,537	266,690
Income before income tax expense	171,521	4,437	175,958
Income tax expense	42,307	1,073	43,380
Net income	129,214	3,364	132,578
Preferred stock dividends	14,041	—	14,041
Net income available to common shareholders	$ 115,173	$ 3,364	$ 118,537
As of December 31, 2020			
Goodwill and other intangibles	$ 3,629	$ 10,669	$ 14,298
Total assets [2]	$ 17,821,665	$ 617,583	$ 18,439,248
Total deposits	$ 10,350,028	$ 959,901	$ 11,309,929
Total non-deposit liabilities [2]	$ 5,982,010	$ 30,223	$ 6,012,233

(1) Amounts reported include funds transfer pricing of $9.3 million for the year ended December 31, 2020, credited to BankMobile for the value provided to the Customers Bank Business Banking segment for the use of excess low/no-cost deposits.
(2) Amounts reported exclude inter-segment receivables/payables.

	For the Year Ended December 31, 2019		
(amounts in thousands)	Customers Bank Business Banking	BankMobile	Consolidated
Interest income [1]	$ 422,094	$ 41,645	$ 463,739
Interest expense	185,513	916	186,429
Net interest income	236,581	40,729	277,310
Provision for credit losses on loans and leases	10,091	14,136	24,227
Non-interest income	35,268	45,670	80,938
Non-interest expense	153,333	78,568	231,901
Income (loss) before income tax expense (benefit)	108,425	(6,305)	102,120
Income tax expense (benefit)	24,215	(1,422)	22,793
Net income (loss)	84,210	(4,883)	79,327
Preferred stock dividends	14,459	—	14,459
Net income (loss) available to common shareholders	$ 69,751	$ (4,883)	$ 64,868
As of December 31, 2019			
Goodwill and other intangibles	$ 3,629	$ 11,566	$ 15,195
Total assets [2]	$ 10,990,550	$ 530,167	$ 11,520,717
Total deposits	$ 8,247,836	$ 401,100	$ 8,648,936
Total non-deposit liabilities [2]	$ 1,789,329	$ 29,657	$ 1,818,986

(1) Amounts reported include funds transfer pricing of $8.8 million for the year ended December 31, 2019, credited to BankMobile for the value provided to the Customers Bank Business Banking segment for the use of excess low/no-cost deposits.
(2) Amounts reported exclude inter-segment receivables/payables.

(amounts in thousands)	For the Year Ended December 31, 2018 Customers Bank Business Banking	BankMobile	Consolidated
Interest income [1]	$ 400,948	$ 17,003	$ 417,951
Interest expense	159,674	400	160,074
Net interest income	241,274	16,603	257,877
Provision for credit losses on loans and leases	2,928	2,714	5,642
Non-interest income	17,499	41,499	58,998
Non-interest expense	146,946	73,233	220,179
Income (loss) before income tax expense (benefit)	108,899	(17,845)	91,054
Income tax expense (benefit)	23,742	(4,383)	19,359
Net income (loss)	85,157	(13,462)	71,695
Preferred stock dividends	14,459	—	14,459
Net income (loss) available to common shareholders	$ 70,698	$ (13,462)	$ 57,236
As of December 31, 2018			
Goodwill and other intangibles	$ 3,629	$ 12,870	$ 16,499
Total assets [2]	$ 9,688,146	$ 145,279	$ 9,833,425
Total deposits	$ 6,766,378	$ 375,858	$ 7,142,236
Total non-deposit liabilities [2]	$ 1,719,225	$ 15,148	$ 1,734,373

(1) Amounts reported include funds transfer pricing of $15.7 million for the year ended December 31, 2018, credited to BankMobile for the value provided to the Customers Bank Business Banking segment for the use of excess low/no-cost deposits.
(2) Amounts reported exclude inter-segment receivables/payables.

NOTE 25 - NON-INTEREST REVENUES

Customers' revenue from contracts with customers within the scope of ASC 606, *Revenue from Contracts with Customers* ("ASC 606") is recognized within non-interest income.

The following tables present Customers' non-interest revenues affected by ASC 606 by business segment for the years ended December 31, 2020, 2019, and 2018:

(amounts in thousands)	For the Year Ended December 31, 2020 Customers Bank Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and card revenue [1]	$ (5,245)	$ 26,284	$ 21,039
Deposit fees	2,527	11,308	13,835
University fees - card and disbursement fees	—	1,240	1,240
Total revenue recognized at point in time	(2,718)	38,832	36,114
Revenue recognized over time:			
University fees - subscription revenue	—	4,080	4,080
Total revenue recognized over time	—	4,080	4,080
Total revenue from contracts with customers	$ (2,718)	$ 42,912	$ 40,194

(1) Beginning on July 1, 2020, Customers Bank became subject to the Federal Reserve's regulation limits on interchange fees for banks over $10 billion in assets. Customers Bank Business Banking has agreed to pay BankMobile the difference between the regulated and unregulated interchange rates. For the year ended December 31, 2020, BankMobile received $5.9 million for the difference between the regulated and unregulated interchange rates.

(amounts in thousands)	For the Year Ended December 31, 2019 Customers Bank Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and card revenue	$ 781	$ 28,160	$ 28,941
Deposit fees	1,742	11,073	12,815
University fees - card and disbursement fees	—	1,008	1,008
Total revenue recognized at point in time	2,523	40,241	42,764
Revenue recognized over time:			
University fees - subscription revenue	—	3,956	3,956
Total revenue recognized over time	—	3,956	3,956
Total revenue from contracts with customers	$ 2,523	$ 44,197	$ 46,720

(amounts in thousands)	For the Year Ended December 31, 2018 Customers Bank Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and card revenue	$ 794	$ 29,901	$ 30,695
Deposit fees	1,277	6,547	7,824
University fees - card and disbursement fees	—	1,039	1,039
Total revenue recognized at point in time	2,071	37,487	39,558
Revenue recognized over time:			
University fees - subscription revenue	—	3,681	3,681
Total revenue recognized over time	—	3,681	3,681
Total revenue from contracts with customers	$ 2,071	$ 41,168	$ 43,239

The following is a discussion of revenues within the scope of ASC 606:

Card revenue

Card revenue primarily relates to debit card fees earned from interchange and ATM fees. Interchange fees are earned whenever Customers' issued debit and prepaid cards are processed through card payment networks. Interchange fees are recognized concurrent with the processing of the debit card transaction.

Deposit fees

Deposit fees relate to service charges on deposit accounts for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop-payment charges, wire transfer fees, cashier and money order fees are recognized at the time the transaction is executed. Account maintenance fees, which relate primarily to monthly maintenance and account analysis fees, are earned on a monthly basis representing the period over which Customers satisfies its performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposit accounts are withdrawn from the depositor's account balance.

The revenues recognized at a point in time primarily consist of contracts with no specified terms, but which may be terminated at any time by the customer without penalty. Due to the transactional nature and indefinite term of these agreements, there were no related contract balances that were recorded for these revenue streams on Customers' consolidated balance sheets as of December 31, 2020 and 2019.

University fees

University fees represent revenues from higher education institutions and are generated from fees charged for the services provided. For higher education institution clients, Customers, through BankMobile, facilitated the distribution of financial aid and other refunds to students, while simultaneously enhancing the ability of the higher education institutions to comply with the federal regulations applicable to financial aid transactions. For these services, higher education institution clients are charged an annual subscription fee and/or per-transaction fee (e.g., new card, card replacement fees) for certain transactions. The annual subscription fee is recognized ratably over the period of service and the transaction fees are recognized when the transaction is completed. BankMobile also entered into long-term (generally three or five-year initial term) contracts with higher education institutions to provide these refund management disbursement services. Deferred revenue consists of amounts billed to or received from clients prior to the performance of services. The deferred revenues are earned over the service period on a straight-line basis.

NOTE 26 - SUBSEQUENT EVENTS

On January 4, 2021, Customers Bancorp completed the previously announced divestiture of BMT, the technology arm of its BankMobile segment, to MFAC Merger Sub Inc., an indirect wholly-owned subsidiary of MFAC, pursuant to an Agreement and Plan of Merger, dated August 6, 2020, by and among Megalith, MFAC Merger Sub Inc., BMT, Customers Bank, the sole stockholder of BMT, and Customers Bancorp, the parent bank holding company for Customers Bank (as amended on November 2, 2020 and December 8, 2020). Following the completion of the divestiture of BMT, BankMobile's serviced deposits and loans and the related net interest income will be combined with Customers financial condition and the results of operations as a single reportable segment. Beginning in the first quarter of 2021, BMT's historical financial results for periods prior to the divestiture will be reflected in Customers Bancorp's consolidated financial statements as discontinued operations.

The following pro forma balance sheet is based on information currently available, including certain assumptions and estimates. The pro forma balance sheet is intended for informational purposes only, and does not purport to represent what Customers' financial position would have been had the divestiture occurred on the date indicated, or to project Customers' financial position for any future date or period.

The pro forma condensed consolidated balance sheet as of December 31, 2020 is presented as if the divestiture had occurred as of December 31, 2020 and gives effect to the elimination of the historical BMT financial results, as well as other pro forma adjustments due to the divestiture.

Pro Forma Condensed Consolidated Balance Sheet
As of December 31, 2020

(amounts in thousands)	Pro Forma Customers Bancorp
Total assets	$ 18,424,389
Total liabilities	$ 17,329,059
Total shareholders' equity	1,095,330
Total liabilities and shareholders' equity	$ 18,424,389

Upon closing of the divestiture, Customers received cash consideration of $23.1 million and holders of Customers common stock who held their Customers shares as of the close of business on December 18, 2020 became entitled to receive an aggregate of 4,876,387 shares of BM Technologies' common stock. Certain employees of BMT also received 1,348,748 shares of BM Technologies' common stock as severance. The total stock consideration from the divestiture that were distributed to holders of Customers common stock and certain BMT employees represented 52% of the outstanding common stock of BM Technologies at the closing date of the divestiture.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Customers Bancorp is responsible for the integrity and objectivity of all information presented in this report. The consolidated financial statements were prepared in conformity with United States generally accepted accounting principles. Management believes that the consolidated financial statements of Customers Bancorp fairly reflect the form and substance of transactions and that the financial statements fairly represent Customers Bancorp's financial position and results of operations. Management has included in Customers Bancorp's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

Beginning with the 2019 consolidated financial statements, the independent registered public accounting firm of Deloitte & Touche LLP audits Customers Bancorp's consolidated financial statements in accordance with the standards of the PCAOB.

The Board of Directors of Customers Bancorp has an Audit Committee composed of four independent directors. The Audit Committee meets periodically with financial management, the internal auditors and the independent registered public accounting firm to review accounting, internal control, auditing, corporate governance and financial reporting matters. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have access to the Audit Committee.

Management of Customers Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2020. The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Management's Evaluation of Disclosure Controls and Procedures. Customers Bancorp maintains disclosure controls and procedures designed to ensure that information required to be disclosed in its periodic filings under the Exchange Act, including this Annual Report on Form 10-K, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to its management on a timely basis to allow decisions regarding required disclosure. Customers Bancorp carried out an evaluation, under the supervision and with the participation of Customers Bancorp's management, including Customers Bancorp's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Customers Bancorp's disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e) as of December 31, 2020. Based upon that evaluation, Customers Bancorp's management concluded that its disclosure controls and procedures are effective as of December 31, 2020.

Management's Annual Report on Internal Control over Financial Reporting. Under the supervision and with the participation of management, including Customers Bancorp's Chief Executive Officer and Chief Financial Officer, Customers Bancorp's management assessed the effectiveness of Customers Bancorp's internal control over financial reporting as of December 31, 2020. In making that assessment, management used the criteria set forth in the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, Customers Bancorp's management concluded that its internal control over financial reporting was effective as of December 31, 2020.

Management's Responsibility for Financial Statements and its Report on Internal Control over Financial Reporting is included in Part II, Item 8, "Financial Statements and Supplementary Data," and is incorporated by reference herein. The Reports of Deloitte & Touche LLP, an independent registered public accounting firm, on the Consolidated Financial Statements, and Internal Control over Financial Reporting are included in Part II, Item 8, "Financial Statements and Supplementary Data," and is incorporated by reference herein.

(b) Changes in Internal Control Over Financial Reporting. During the quarter ended December 31, 2020, there have been no changes in Customers Bancorp's internal control over financial reporting that have materially affected, or are reasonably likely to material affect, Customers Bancorp's internal control over financial reporting.

The emergence of the COVID-19 pandemic during first quarter 2020 necessitated the execution of several Customers Bancorp contingency plans. Beginning in March 2020 and continuing through this filing date, Customers Bancorp had a substantial number of its team members working remotely under such contingency plans. The execution of these contingency plans have not materially affected, or are reasonably likely to materially affect, Customers' internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be included in the Proxy Statement for the 2021 Annual Meeting of Shareholders in the sections titled "Our Board of Directors and Management," and "Board Governance," and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item will be included in the Proxy Statement for the 2021 Annual Meeting of Shareholders in the sections titled "Director Compensation," "Executive Officer Compensation," and "Board Governance," and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be included in the Proxy Statement for the 2021 Annual Meeting of Shareholders in the sections titled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be included in the Proxy Statement for the 2021 Annual Meeting of Shareholders in the sections titled "Certain Relationships and Related Transactions" and "Board Governance" and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be included in the Proxy Statement for the 2021 Annual Meeting of Shareholders in the section titled "Proposal 2 — Ratification of Appointment of Independent Registered Public Accounting Firm," and is incorporated herein by reference.

PART IV

Item 15 Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements - Consolidated financial statements are included under Item 8 of Part II of this Form 10-K.
2. Financial Statements Schedules - All financial statement schedules have been included in the consolidated financial statements or the related footnotes, or are either not applicable or not required.

(c) Exhibits

Exhibit No.	Description
2.1	Asset Purchase Agreement dated as of December 15, 2015 by and among Customers Bancorp, Customers Bank, Higher One, Inc. and Higher One Holdings, Inc., incorporated by reference to Exhibit 2.3 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016
2.2	Agreement and Plan of Merger by and between Megalith Financial Acquisition Corp., MFAC Merger Sub Inc., Customers Bank, and BankMobile Technologies, Inc., as the Company, incorporated by reference to Exhibit 2.1 to the Customers Bancorp 8-K filed with the SEC on August 6, 2020
2.3	First Amendment to Agreement and Plan Merger, dated November 2, 2020, by and among Megalith Financial Acquisition Corp., MFAC Merger Sub, Inc., Customers Bank, BankMobile Technologies, and Customers Bancorp, incorporated by reference to Exhibit 2.1 to the Customers Bancorp 8-K filed with the SEC on November 2, 2020
2.4	Second Amendment to Agreement and Plan of Merger, dated December 8, 2020, by and among Megalith Financial Acquisition Corp., MFAC Merger Sub, Inc., Customers Bank, and BankMobile Technologies, incorporated by reference to Exhibit 2.3 to Customers Bancorp’s Form 8-K filed with the SEC on January 8, 2021
3.1	Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp’s Form 8-K filed with the SEC on April 30, 2012
3.2	Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp’s Form 8-K filed with the SEC on April 30, 2012
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, Inc., incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, Inc., incorporated by reference to Exhibit 3.1 to the Customers Bancorp’s Form 8-K filed with the SEC on June 3, 2019
3.5	Amendment to Amended and Restated Bylaws of Customers Bancorp, Inc., incorporated by reference to Exhibit 3.1 to the Customers Bancorp’s Form 8-K filed with the SEC on June 19, 2019
3.6	Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on May 18, 2015
3.7	Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on January 29, 2016
3.8	Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on April 28, 2016
3.9	Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on September 16, 2016
4.1	Specimen stock certificate of Customers Bancorp, Inc. Voting Common Stock and Class B Non-Voting Common Stock, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form S-1/A filed with the SEC on May 1, 2012
4.2	Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013
4.3	Second Supplemental Indenture, dated as of June 30, 2017, by and between Customers Bancorp, Inc, as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on June 30, 2017

Exhibit No.	Description
4.4	Form of 4.50% Senior Note due 2024, incorporated by reference to Exhibit 4.2 to the Customers Bancorp Form 8-K filed with the SEC on September 25, 2019
4.5	First Supplemental Indenture, dated as of December 9, 2019, between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Customers Bancorp Form 8-K filed with the SEC on December 9, 2019
4.6	Form of 5.375% Subordinated Note due 2034, incorporated by reference to Exhibit 4.3 to the Customers Bancorp Form 8-K filed with the SEC on December 9, 2019
4.7	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934, incorporated by reference to Exhibit 4.7 to the Customers Bancorp From 10-K filed with the SEC on March 2, 2020
4.8	Form of Note Subscription Agreement (including form of Subordinated Note Certificate and Senior Note Certificate), incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on June 26, 2014
4.9	Third Supplemental Indenture, dated as of September 25, 2019, by and between Customers Bancorp, Inc., as Issuer and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on September 25, 2019
4.10	Subordinated Indenture, dated as of December 9, 2019, between the Registrant and Wilmington Trust, National Association, as Trustee incorporated by reference to Exhibit 4.1 of the Registrant’s Current Report on Form 8-K filed December 9, 2019
10.1+	Customers Bancorp, Inc. 2010 Stock Option Plan, incorporated by reference to Exhibit 10.2 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012
10.2+	Amended and Restated Customers Bancorp, Inc. 2004 Incentive Equity and Deferred Compensation Plan, incorporated by reference to Exhibit 10.7 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012
10.3+	Customers Bancorp, Inc. 2014 Employee Stock Purchase Plan, incorporated by reference to Exhibit 4.4 to the Customers Bancorp Form S-8 filed with the SEC on August 8, 2014
10.4+	Customers Bancorp, Inc. 2019 Stock Incentive Plan, incorporated by reference to Exhibit 4.6 to the Customers Bancorp Form S-8 filed with the SEC on July 25, 2019
10.5+	Form of Restricted Stock Unit Award Agreement for Employees relating to the 2012 Special Stock Reward Program, incorporated by reference to Exhibit 10.25 to the Customers Bancorp Form S-1/A filed with the SEC on May 1, 2012
10.6+	Bonus Recognition and Retention Plan, incorporated by reference to Exhibit 10.15 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012
10.7+	Form of Restricted Stock Unit Award Agreement for Directors relating to the 2012 Special Stock Reward Program, incorporated by reference to Exhibit 10.26 to the Customers Bancorp Form S-1/A filed with the SEC on May 1, 2012
10.8+	Form of Stock Option Agreement, incorporated by reference to Exhibit 10.18 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012
10.9+	Form of Restricted Stock Unit Award Agreement, incorporated by reference to Exhibit 10.17 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012
10.10+	Form of Restricted Stock Unit Award Agreement relating to the 2019 Stock Incentive Plan, incorporated by reference to Exhibit 10.7 to the Customers Bancorp Form 10-K filed with the SEC on March 2, 2020
10.11+	Amended and Restated Employment Agreement, dated as of March 26, 2012, by and between Customers Bancorp, Inc. and Richard Ehst, incorporated by reference to Exhibit 10.4 to the Customers Bancorp Form S-1 filed with the SEC on March 28, 2012
10.12+	Employment Agreement, dated as of March 1, 2014, by and between Customers Bancorp, Inc. and Steven Issa, incorporated by reference to Exhibit 10.16 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016
10.13+	Amendment to Employment Agreement, dated as of February 26, 2016, by and between Customers Bancorp, Inc. and Steven Issa, incorporated by reference to Exhibit 10.17 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016

Exhibit No.	Description
10.14+	Amended and Restated Employment Agreement, dated as of December 30, 2016, by and between Customers Bancorp, Inc. and Jay S. Sidhu. incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on December 30, 2016
10.15+	Amended and Restated Employment Agreement, dated as of December 30, 2016, by and between Customers Bancorp, Inc. and Richard Ehst, incorporated by reference to Exhibit 10.2 to the Customers Bancorp Form 8-K filed with the SEC on December 30, 2016
10.16+	Separation of Employment dated as of December 7, 2018 by and between Customers Bancorp, Inc. and Robert Wahlman, incorporated by reference to Exhibit 10.1 to the Customers Bancorp, Inc. Form 8-K filed with the SEC on December 11, 2018
10.17+	Employment Agreement, dated as of October 23, 2019, by and between Customers Bancorp, Inc. and Carla Leibold, incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on October 25, 2019
10.18+	Employment Agreement, dated as of January 22, 2020, by and between Customers Bancorp, Inc. and Samvir Sidhu, incorporated by reference to Exhibit 10.18 to Customers Bancorp's Form 10-K filed with the SEC on March 2, 2020
10.19+	Change of Control Agreement, dated as of January 30, 2013, by and between Customers Bancorp, Inc. and Glenn Hedde, incorporated by reference to Exhibit 10.29 to Customers Bancorp's Form 10-K filed with the SEC on March 18, 2013
10.20+	Change of Control Agreement, dated as of January 30, 2013, by and between Customers Bancorp, Inc. and Warren Taylor, incorporated by reference to Exhibit 10.30 to Customers Bancorp's Form 10-K filed with the SEC on March 18, 2013
10.21+	Change of Control Agreement, dated as of December 22, 2012, by and between Customers Bancorp, Inc. and Ken Keiser, incorporated by reference to Exhibit 10.14 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016
10.22+	Change of Control Agreement, dated as of August 14, 2017 by and between Customers Bancorp, Inc. and Carla A. Leibold, incorporated by reference to Exhibit 10.34 to the Customers Bancorp Form 10-K filed with the SEC on March 1, 2019
10.23+	Supplemental Executive Retirement Plan of Jay S. Sidhu, incorporated by reference to Exhibit 10.15 to the Customers Bancorp Form S-1/A filed with the SEC on April 18, 2011
10.24+	Letter Agreement, dated as of December 30, 2016, by and between Customers Bancorp, Inc. and Jay S. Sidhu. incorporated by reference to Exhibit 10.3 to the Customers Bancorp Form 8-K filed with the SEC on December 30, 2016
10.25+	Customers Bank Death Benefit Plan, dated as of October 23, 2019, incorporated by reference to Exhibit 10.3 to the Customers Bancorp Form 10-Q filed with the SEC on November 7, 2019
10.26	Transition Services Agreement dated as of June 15, 2016 by and among Customers Bancorp, Customers Bank, Higher One, Inc. and Higher One Holdings, Inc., incorporated by reference to Exhibit 10.1 to the Customers Bancorp's Form 8-K filed with the SEC on June 16, 2016
10.27	Order to Cease and Desist and Order of Assessment of Civil Money Penalty Issued Upon Consent Dated December 2, 2016, incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on December 7, 2016
10.28*	Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of February 24, 2017, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.29*	First Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of September 30, 2017, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.30*	Second Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of October 24, 2017, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.31*	Third Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of December 21, 2017, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019

Exhibit No.	Description
10.32*	Fourth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of December 1, 2018, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.33*	Fifth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of August 16, 2018, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.34*	Sixth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of September 28, 2018, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.35*	Seventh Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of September 28, 2018, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.36*	Eighth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of December 9, 2018, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.37*	Ninth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of September 28, 2018, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.38*	Tenth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of December 27, 2018, incorporated by reference to Exhibit 10.22 to the Customers Bancorp Form 10-K/A filed with the SEC on April 24, 2019
10.39	Sponsor Share Letter, dated August 6, 2020, by and among Sponsor, Megalith and Customers Bank, incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on August 6, 2020
10.40	Form of Lock-up Agreement, incorporated by reference to Exhibit 10.2 to the Customers Bancorp Form 8-K filed with the SEC on August 6, 2020
10.41	Form of Non-Competition Agreement, incorporated by reference to Exhibit 10.3 to the Customers Bancorp Form 8-K filed with the SEC on August 6, 2020
10.42	Form of Registration Rights Agreement, incorporated by reference to Exhibit 10.4 to the Customers Bancorp Form 8-K filed with the SEC on August 6, 2020
10.43	Transition Services Agreement, dated January 4, 2021, by and between Customers Bank and BM Technologies, Inc., incorporated by reference to Exhibit 10.1 to Customers Bancorp's Form 8-K filed with the SEC on January 8, 2021
10.44	Software License Agreement, dated January 4, 2021, by and between Customers Bank and BM Technologies, Inc., incorporated by reference to Exhibit 10.2 to Customers Bancorp's Form 8-K filed with the SEC on January 8, 2021
10.45	Deposit Processing Services Agreement, dated January 4, 2021, by and between Customers Bank and BM Technologies, Inc., incorporated by reference to Exhibit 10.3 to Customers Bancorp's Form 8-K filed with the SEC on January 8, 2021
10.46	Non-Competition and Non-Solicitation Agreement, dated January 4, 2021, by and between Customers Bank and BM Technologies, Inc., incorporated by reference to Exhibit 10.4 to Customers Bancorp's Form 8-K filed with the SEC on January 8, 2021
10.47	Loan Agreement, dated January 4, 2021, between Customers Bank, BM Technologies, Inc., and BMTX, Inc., incorporated by reference to Exhibit 10.5 to Customers Bancorp's Form 8-K filed with the SEC on January 8, 2021
21.1	List of Subsidiaries of Customers Bancorp, Inc.
23.1	Consent of Deloitte & Touche LLP, filed herewith
23.2	Consent of BDO USA, LLP, filed herewith
31.1	Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit No.	Description
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from the Customers' Annual Report on Form 10-K as of and for the year ended December 31, 2020, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to the Consolidated Financial Statements.
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document
+	Management Contract or compensatory plan or arrangement
*	Certain identified information has been excluded from this Exhibit because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Item 16 Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Customers Bancorp, Inc.

March 1, 2021	By:	/s/ Jay S. Sidhu
	Name:	Jay S. Sidhu
	Title:	Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature:	Title(s):	Date:
/s/ Jay S. Sidhu Jay S. Sidhu	Chairman, Chief Executive Officer and Director (principal executive officer)	March 1, 2021
/s/ Carla A. Leibold Carla A. Leibold	Executive Vice President - Chief Financial Officer (principal financial officer)	March 1, 2021
/s/ Jessie John D. Velasquez Jessie John D. Velasquez	Senior Vice President - Chief Accounting Officer (principal accounting officer)	March 1, 2021
/s/ Andrea R. Allon Andrea R. Allon	Director	March 1, 2021
/s/ Robert J. Buford Robert J. Buford	Director	March 1, 2021
/s/ Rick B. Burkey Rick B. Burkey	Director	March 1, 2021
/s/ Bhanu Choudhrie Bhanu Choudhrie	Director	March 1, 2021
/s/ Daniel K. Rothermel Daniel K. Rothermel	Director	March 1, 2021
/s/ T. Lawrence Way T. Lawrence Way	Director	March 1, 2021
/s/ Steven J. Zuckerman Steven J. Zuckerman	Director	March 1, 2021

Exhibit 21.1

List of Significant Subsidiaries of Customers Bancorp, Inc.

Name:	**Jurisdiction**
1. Customers Bank	Pennsylvania

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-239305 on Form S-3 and Registration Statement Nos. 333-232824, 333-197977, and 333-186544 on Form S-8 of our reports dated March 1, 2021, relating to the consolidated financial statements of Customers Bancorp, Inc. and subsidiaries, and the effectiveness of Customers Bancorp, Inc. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
March 1, 2021

Exhibit 23.2

<u>Consent of Independent Registered Public Accounting Firm</u>

Customers Bancorp, Inc.
West Reading, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statements on Form S3 (No. 333-239305) and Form S-8 (No. 333-232824, 333-197997 and 333-186554) of Customers Bancorp, Inc. of our report dated March 1, 2019, relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BDO USA, LLP

Philadelphia, Pennsylvania
March 1, 2021

R-221 (5/19)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) / 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Jay S. Sidhu, certify that:

1. I have reviewed this Annual Report on Form 10-K of Customers Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jay S. Sidhu
Jay S. Sidhu

Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: March 1, 2021

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) / 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Carla A. Leibold, certify that:

1. I have reviewed this Annual Report on Form 10-K of Customers Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Carla A. Leibold
Carla A. Leibold

Chief Financial Officer
(Principal Financial Officer)

Date: March 1, 2021

Exhibit 32.1

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

In connection with the annual report of Customers Bancorp, Inc. (the "Corporation") on Form 10-K for the period ending December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay S. Sidhu, Chairman and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 1, 2021

/s/ Jay S. Sidhu

Jay S. Sidhu, Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the annual report of Customers Bancorp, Inc. (the “Corporation”) on Form 10-K for the period ending December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Carla A. Leibold, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 1, 2021

/s/ Carla A. Leibold

Carla A. Leibold, Chief Financial Officer
(Principal Financial Officer)