Presentation

Operator

Greetings. Welcome to Medallion Financial's First Quarter 2022 Earnings Conference Call. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to Ken Cooper of Investor Relations. Thank you. You may begin.

Ken Cooper

Thank you, and good morning, everyone. Welcome to Medallion Financial Corp.'s first quarter earnings call. During our call, we will refer to our earnings supplement slides. This presentation is available on our website at medallion.com by clicking Investor Relations. The presentation is near the top of the page. Joining me today are Andrew Murstein, President and Chief Operating Officer; and Anthony Cutrone, Chief Financial Officer.

Certain statements made during the call today constitute forward-looking statements made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Those risks and uncertainties are described in our earnings press release issued yesterday and in our filings with the SEC. The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update these forward-looking statements.

With that, let me turn the call over to Andrew. Andrew?

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you, Ken. Good morning, everyone. Before Anthony takes you through our presentation, I would like to just touch upon a few general comments about our business and our quarter. As you saw, we started the year off well. Our net income for the quarter was $9.8 million, up 17% from a year ago. Our net interest income was up 25% to $35.9 million, and our net interest margin was a strong 9.2%.

Our success over the past 6 quarters has positioned us well from a capital perspective. This allowed us to declare and pay a dividend of $0.08 per share and resume purchases under our stock repurchase program. Our growth lending segments are both consumer and commercial.

Our consumer lending segments account for 94% of our loans. We continue to grow both our recreational and home improvement lending businesses. We originated $204.2 million of new loans in the quarter, which was up 44% from the prior year quarter. Our home improvement continues to be our fastest-growing segment, and we continue to work hard to build our consumer business by increasing the contractors and dealers we partner with.

Our commercial lending business is our other growth segment. We originated $4.4 million of loans in the quarter, which helped our overall loan balance grow from $76.7 million at the end of the fourth quarter to $77.9 million at the end of the first quarter. Like our consumer loans, we have a strong interest rate for our commercial portfolio, which was at 12.41% for the first quarter.

Moving to a few business highlights. During the quarter, we had approximately $10 million less noninterest income than we did in the fourth quarter of 2021. This is due to no sales or exits of investments in the quarter. As a reminder, we make small investments in fintech companies through our early looks of diligence for our strategic partnership program and through our commercial business. The timing and return on these exits are not predictable. However, when we do execute exits, we have been successful and hope to continue such success in the future.

And finally, I hope you saw our announcement yesterday regarding our most recent Board and corporate governance enhancements. The Board will add 2 independent directors and has created a lead independent director position on the Board. Brent Hatch has been appointed to the Board and has assumed a lead independent director role, effective immediately. Our Board will engage a third-party executive search firm to assist in the search process for the additional independent director. These are further examples of our long-standing commitment to strong corporate governance.

With that, I will now turn the call over to Anthony, who will provide additional financial highlights on the quarter and the year.

Anthony N. Cutrone
Executive VP & CFO

Thank you, Andrew. Good morning, everyone. As you could see on Slide 3, we have a focused business plan. As we have continued to see in the trailing quarters, the growth in our consumer and commercial segments has resulted in bottom line success and accretion to shareholder value.

As shown on Slide 4, we had several financial highlights in the first quarter. We earned net income of $9.8 million and earned diluted EPS of $0.39. We continue to have success with loan originations, which grew 44% over the prior year quarter, almost entirely in our recreation and home improvement loan portfolios.

As shown on Slide 5, 99% of our nearly $1.6 billion of loans are consumer and commercial loans. Our business plan is clear: grow our consumer and commercial portfolios. Home improvement lending is our fastest-growing segment, growing 158% since 2018 while recreation lending, far and away, remains our largest segment. We are very pleased with the mix and performance of our overall loan portfolio.

Net interest income continued to grow, as reflected on Slide 6. This continues to be driven by our loan growth in the consumer lending segments. As we anticipate the effects of rising interest rates throughout the remainder of 2022 and beyond, while we could see some compression in our margins, we still believe that the growth in our consumer segments should help mitigate that compression and have a positive effect on our bottom line.

Slide 7 does a good job of showing a key competitive advantage for us over nonbank competitors: our high net interest margin, which we maintained in the first quarter. Our home improvement portfolio is our fastest-growing segment, but has a lower net interest margin than our recreational segment. Continued success in growing those segments at similar rates could put pressure on overall net interest margins. However, this is a worthwhile exchange in our minds for increasing our size and decreasing our credit risk exposure, all with the goal of increasing earnings as the portfolio grows.

Looking at our noninterest operating costs. As shown on Slide 8, we continue to expect to grow our top line at a faster rate than our costs. During the quarter, we had higher incremental professional fees than a typical quarter. These costs were primarily associated with the cooperation agreement we announced yesterday and other litigation. We expect professional fees to fluctuate over the coming quarters. Lastly, Slide 9 provides a summary income statement with some key financial ratios for the quarter, and Slide 10 provides our summary March 31 balance sheet with some key metrics.

A few other financial items to note. During the quarter, we paid a dividend of $0.08 per share and purchased just over 67,000 shares of our common stock as we resumed purchases under our stock repurchase plan. As announced yesterday, we have a new and increased stock repurchase plan, and we declared a quarterly dividend of $0.08 payable in May.

Lastly, a quick update on our medallion segment. During the quarter, we had $5.2 million of cash collections related to medallion assets. These collections have helped further reduce our net medallion exposure, which now stands at $37 million and represents less than 2% of our total assets. The recent activity in the taxi medallion industry, including Uber's recent announcement that it is partnering with New York City taxis and the general recovery of taxi use continues to be favorable for this business segment.

That covers our first quarter financial overview. With that, Andrew and I are happy to now take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Steve Moss with B. Riley Securities.

Stephen M. Moss
B. Riley Securities, Inc., Research Division

Maybe just starting, Andrew, with a little more color in terms of your thoughts on loan pricing and kind of where -- how you think loan growth could shake out as we progress here into a Fed-tightening cycle.

Anthony N. Cutrone
Executive VP & CFO

Sure. I think Q1, we saw a 44% growth over Q1 of last year. There still continues to be a lot of demand for our products, and our origination experience shows that as far as pricing, we're about where we were at the end of Q4. The rec portfolio, our weighted average yield is -- weighted average interest rate on these loans is 4.5% at Q4. It's about 14.36% at Q1, and home improvement was flat at 8.47%.

Stephen M. Moss
B. Riley Securities, Inc., Research Division

Okay. That's helpful. And then just thinking about funding costs, if I heard you on the margin pressure here. Just kind of curious as to -- as we think about where CDs are pricing here, I'm kind of curious as to how you're thinking about funding over the next 12 months.

Anthony N. Cutrone
Executive VP & CFO

Sure. Yes. We haven't seen a big impact in Q1. We're about 124 basis points average rate on our CDs. At Q4, we were 120 basis points. The issuances we did in Q1 were probably 149 basis points blended compared to lower than that in Q4. What we -- the interest rates of -- in the CD market, we're seeing anywhere from 100 to 140 basis point increase with 36-month CDs in Q1, and that's changing daily.

We think the market's priced in a couple of Fed hikes, not just one. Looking to our maturities over the next 2 years and the blended rate of our maturities through balance of 2022 was 152 basis points, and in '23, it's 163 basis points.

Stephen M. Moss
B. Riley Securities, Inc., Research Division

Okay. That's helpful. And then in terms of just maybe just going a little further into the settlement here with the activist. Maybe just a little bit of color, if you guys could, around the decision and the rationale to settle here. Just kind of curious as to any thoughts or insight you could give.

Andrew M. Murstein
President, COO & Non-Independent Director

Sure. First, we've already been very receptive to shareholders' concerns. We've engaged with, in this particular case, with this group for many years. We have an open door policy, and we've been having a healthy dialogue throughout the years and throughout this process.

Secondly, we strive to always be best-in-class in corporate governance. So we've added -- when this is done, it will be our sixth new independent director in the past 5 years.

And third, we've successfully repositioned the business, and he's noted that and has been pleased, I believe, with it. And we're continuing to enhance shareholder value through, among other things, this enhanced governance, the dividends that we announced and the increased buyback that we announced yesterday.

Operator

Our next question is from Mike Grondahl with Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Could you give us an update on where delinquency stood for kind of the RVs, the boat loans and maybe home improvement as of March 31.

Anthony N. Cutrone
Executive VP & CFO

Sure. Yes, they continue to be low. 90-plus delinquencies for the RV portfolio, at March, was about $3.8 million. It's almost identical to where it was at year-end. In the 60- to 90-day buckets, we're at $6.1 million versus $6.6 million at the end of Q4. And home improvement also continues to be near historic lows.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And in terms of the yields you're getting on those, do you think you have any pricing power as rates rise?

Anthony N. Cutrone
Executive VP & CFO

Yes, I think we do. We've been hesitant just -- we want to see what the overall market in this space does before we pull the trigger on raising rates to our borrowers. We don't want to price ourselves out of the market. But we do think over the next couple of quarters, there will be rate increases.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And then I think you guys mentioned you're working to expand contractors and dealers. Can you give us an update on those counts at the end of March?

Anthony N. Cutrone
Executive VP & CFO

It think they're slightly above where they were at the end of Q4. That's an ongoing process. We're always looking to expand where we stand with our relationships. A significant amount of our business is generated from a -- if we've got 5,000 dealers that we work with, there's a lot of business that comes from a couple of dozen. So it's not -- it's confined to that portion, and we've got really good relationships with those groups.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. Got it. Where were you carrying the New York medallions at March 31? Have those been written up at all? Or are they still about $80,000?

Anthony N. Cutrone
Executive VP & CFO

This is a -- this seems to be a question we get a lot. So we're continuing to carry those medallions at $79,500. Although as recently as April, I think New York City has published some information on their transfer prices. We've seen -- and we're seeing values anywhere from $120,000 up to $180,000 for the transfers of New York City medallions.

Our accounting, just to go over it real quick, the 2 buckets of assets we have for medallions are our loans and our loans in the process of foreclosure. Our loans in the process of foreclosure is a majority of our assets. These assets are held for sale and GAAP accounting requires that they're held at net realizable value, which is the lower of cost to market. So we don't have the ability to write these medallions up. So once we've written them down to $79,500, they continue to stay there. And so even though we might be able to sell them for $140,000 when we dispose of them, we don't recognize that gain until the asset's disposed of.

On the loan side, we're continuing to reserve down to that $79,500 level. And the reason that we haven't changed our reserve policy with that is because still, we look at this portfolio was impaired. A fair amount of these loans are still on some sort of modified deferral where they're not paying full payments of P&I. And until something substantial changes there, we don't see there being any reason to change our reserve levels.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And maybe 2 more questions on the medallions. One is if you have a rough utilization for your portfolio? You gave that out a couple of years ago, I think. And then secondly, you've now collected about $5 million in previously kind of charged off taxi collections. Are you feeling comfortable? How much more is there to collect out there? Kind of what's your outlook for collections?

Anthony N. Cutrone
Executive VP & CFO

We think there's a fair amount more to collect. Of that -- the $5.2 million we collected, about $3.5 million of it went to reduce our assets. And you can see that in our exposure going from $40.5 million to $37.1 million or so. And the other half actually ended up on the P&L. So you see that, it's in the other income line. There's a fair amount of that other income, which is just around $2 million on the income statement. That's gains on previously written off medallions.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. Got it. And hey, is your outlook -- can you collect another $20 million the rest of this year? What is the total pie you're kind of going after? And what do you think you can get the rest of this year?

Anthony N. Cutrone
Executive VP & CFO

A portion of that is traditional P&I payments that are coming in day in, day out. And just like we've always said for the past quarters and probably the past years, some of these settlements, they're lumpy. It's hard to project out what they are. We've got a couple that we're working on. We don't want to say what those numbers are.

But we could see collections being at that level. But we can't be certain. So we think there's -- especially given where the prices are now in the market, where the TLC is showing these transfers at, we think there's a lot of potential for some nice recoveries.

Michael John Grondahl
Northland Capital Markets, Research Division

And then maybe just lastly, how are you thinking about loan loss reserves overall?

Anthony N. Cutrone
Executive VP & CFO

Sure. On the consumer side, I think we're at, on a percentage of the loan balance where we were around Q4, a slight change. I think rec is down slightly, and that's just because of the loss experience we have been seeing over the past 12 months. Home improvement is up slightly a couple of basis points.

On the medallion and the commercial segments, one, the medallion reserves are slightly lower, and that's because of cash collections. So to the extent that we collect cash on a loan, it's reducing the reserve. And on the commercial side, we had an exit of one of our mezzanine loans in Q1, which had a reserve. So that came down slightly.

Operator

We have reached the end of our question-and-answer session. I would like to turn the conference back over to Andrew for closing comments.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you again for joining us on the call today. As always, if you have any questions, please feel free to contact our Investor Relations team. The contact information is on the last page of our earnings supplement as well as the IR section of our website. Thank you again, and have a great day.

Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

Presentation

Operator

Greetings, and welcome to Medallion Financial's Second Quarter 2022 Earnings Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded.

I will now turn the conference over to Ken Cooper of Investor Relations. Thank you. You may begin.

Ken Cooper

Thank you, and good morning, everyone. Welcome to the Medallion Financial Corp.'s second quarter earnings call. Joining me today are Andrew Murstein, President and Chief Operating Officer; and Anthony Cutrone, Chief Financial Officer.

Certain statements made during the call today constitute forward-looking statements made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements.

Those risks and uncertainties are described in our earnings press release issued yesterday and in our filings with the SEC. The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update these forward-looking statements.

In addition to our earnings press release, you can find our second quarter supplement presentation on our website at medallion.com and clicking Investor Relations. The presentation is near the top of the page.

With that, let me now turn the call over to Andrew. Andrew?

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you, Ken. Good morning, everyone. We are very pleased with our results this quarter. The growth in our consumer and commercial lending businesses continue to yield positive results.

Our net income for the quarter was up 30% from a year ago to $13.3 million. Our performance is driven by strong credit quality and robust loan originations. We had a 45% increase in loan originations in the second quarter compared to last year's quarter with solid volumes from both consumer lending and our commercial businesses.

Our loan originations led to a 32% increase in net interest income, and we maintained our high net interest margin in the quarter of 9.07%.

Regarding capital allocation, we declared and paid a dividend of $0.08 per share during the quarter. In addition, we had our first full quarter of purchases under our stock repurchase program. We used $10 million of cash in the quarter to repurchase roughly 1.3 million shares of our common stock at an average price of $7.84 per share. We plan to remain opportunistic and take advantage of buying opportunities if our stock remains undervalued.

All of our growing lending segments had good quarters. In our recreation and home improvement lending businesses, we originated $275 million of new loans in the quarter, which was up 40% from the prior year quarter. This is very healthy volume and is a testament to our team managing the relationships with our contractors and dealers.

Our home improvement lending business continues to be our fastest-growing segment. That loan portfolio grew 43%, while our much larger recreational portfolio grew 24%.

Our commercial lending business originated $19 million of loans in the quarter, which is our highest volume over the last 4-plus years. However, please keep in mind that commercial originations typically have larger loan sizes, and therefore, the growth rate is not as smooth as consumer originations.

That makes comparing growth between them challenging and a linear ramp should not be expected. We now have an overall loan portfolio balance nearing $100 million, which was one of our goals for the commercial team at the beginning of the year.

With that, I will now turn the call over to Anthony, who will provide additional financial highlights on the quarter and the year.

Anthony N. Cutrone
Executive VP & CFO

Thank you, Andrew. Good morning, everyone.

Starting at the top, net interest income of $38.9 million, grew 8% from the prior quarter and 32% from the previous year's quarter. Increased net interest income is directly attributable to growth in our loan portfolios and the high yields we earn on recreation, home improvement and commercial loans.

Total loan originations of $305 million grew 45% from a year ago. Our net interest margin was 9.07% for the quarter, a decrease of 13 basis points from the first quarter and an increase of 23 basis points from the prior year quarter.

While home improvement continues to be our fastest-growing segment, these loans do come with a lower coupon when compared to our rec and commercial loans and put pressure on net interest margins as does the slightly higher cost of funds, which we experienced in the second quarter.

As we continue to grow home improvement, our net interest margin should shrink. However, as we've said in the past, we believe this to be a worthwhile exchange for both increasing our size and decreasing our credit risk exposure.

During the quarter, we began to increase interest rates on new home improvement loans and anticipate increasing rates on new recreation loans. Our loan loss provision was $7.8 million in the quarter, up from $3.2 million in the prior quarter and a benefit of $700,000 in the prior year second quarter. The current quarter included medallion recoveries of $2.5 million.

Loan losses in our consumer seg have remained relatively stable with the increased provision being more closely associated with growth, particularly in recreation lending than with rising credit losses. Noninterest income was $7.4 million in the quarter and included a $4.2 million gain on the exit of an equity investment as well as $2.7 million of gains associated with the disposition of medallion assets.

Equity investments are an integral part of our commercial lending business, but the exits of such investments and any associated gains is not predictable. Our noninterest operating costs stayed consistent from the first quarter and included elevated professional fees primarily associated with the cooperation agreement we announced in May and other litigation. We expect professional fees to fluctuate over the coming quarters.

Net income attributable to Medallion Financial shareholders was $13.3 million for the quarter, a 30% increase from a year ago, and our diluted earnings per share was $0.54. I encourage you to take a look at the investor presentation on our website, which shows the trailing quarters, and the progress Medallion has made in a little over 2 years.

A quick update on the Medallion segment. During the quarter, we collected $13.1 million of cash related to medallion assets. These collections helped further reduce our medallion exposure and generate approximately $5.2 million of income. Our net medallion exposure now sits at $31 million, less than 2% of total assets.

We continue to use a medallion value of $79,500 in determining loan loss allowances and in valuing our medallion assets, despite leasing transfer activity at prices, which have exceeded this level from time to time. That covers our second quarter financial overview.
With that, Andrew and I are happy to now take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Gates Schwarzmann with B. Riley Securities.

Gates Schwarzmann
B. Riley Securities, Inc., Research Division

So I think, yes, first question right off the bat here is rates have risen pretty rapidly here. Just curious, how you guys feel about funding costs in the environment? And any sort of details that you could provide on the liability side?

Anthony N. Cutrone
Executive VP & CFO

Yes. So our cost of funds, they are increasing. We saw that a little bit in Q1. We see that a little bit in Q2. As they increase, we're cautiously moving our rates up on our loans, hoping to maintain our long-term interest margins.

In terms of what we're experiencing, we're seeing new CDs being issued at 350 basis points in Q2, which is 250 basis points higher than what we put on at the end of 2021. But we expect that to level off at some point.

Gates Schwarzmann
B. Riley Securities, Inc., Research Division

Awesome. And I guess sticking to margin a little bit. Can we talk a little bit about new loan pricing in the recreational and home improvement side? Have you guys seen any sort of like any spread compression there? Just curious on your thoughts.

Anthony N. Cutrone
Executive VP & CFO

Yes. Not so much spread compression. Like we said, so in Q2, we started to raise interest rates on our new home improvement loans. I think our actual interest yield increased slightly in home improvement, and with the coupons we're putting out now, we think we'll continue to raise rates throughout the year, depending upon what the Fed does. Likewise on the rec, we anticipate -- we haven't raised rates yet through Q2, but we anticipate raising them going forward.

Gates Schwarzmann
B. Riley Securities, Inc., Research Division

Awesome. And I guess there's been some reports as well about production slowed a little bit on the RV side. I'm just curious, has your guys' outlook for RV has changed at all in the past 3 months?

Anthony N. Cutrone
Executive VP & CFO

Sure. Yes. So I think we've seen a lot of reports that June sales were lower than historically. And I think it's comparing June to the prior year where it was record setting. So we haven't seen any big slowdown in terms of loan volume. But we do think originations aren't going to keep up at this pace, but we do think we'll still be able to grow the portfolio where we are now.

Gates Schwarzmann
B. Riley Securities, Inc., Research Division

Awesome. And I guess if I sneak one more in. Just curious, what are you guys sort of thinking about in terms of expenses in the current environment? Curious what kind of drivers there are on the salaries and professional fees side. Are you guys seeing any sort of inflationary pressure, just curious about what kind of drivers you guys are seeing?

Anthony N. Cutrone
Executive VP & CFO

Yes. So I mean, our -- the area where we have most of our employees is in Salt Lake City at Medallion Bank, and Salt Lake City is one of the cities that's been experiencing record-low unemployment rates. So there is competition for all -- across the board for all types of employees, whether it's in the accounting or the origination side.

So there will be some increases there. And obviously, as we continue to grow, head count is going to go up, and we'll see increased costs there.

Operator

Our next question comes from Bill Dezellem with Tieton Capital.

William J. Dezellem
Tieton Capital Management, LLC

First question is, would you please talk about the Covered Holdings relationship and maybe put that in context of the overall fintech strategy, please?

Andrew M. Murstein
President, COO & Non-Independent Director

Sure. So Cover's the third strategic partner that we signed up. We're optimistic on all 3. The newest one is probably the largest and growing the fastest of the 3. So it's a very good business model for us. As many people know, the way it works is the fintech companies send us the loans. We book the loans where they're lender of record, and then they buy it back and we're earning a fee for doing that and the float for a couple of days. So there is very little to no credit risk there. So it's an extremely high ROE business. We hope to grow that.

We went into it several years ago. We hired a very good manager who was the CEO of another bank and undertook this for that bank. So we kind of hit the ground running, and the hope is to sign up a fourth partner sometime in the next 3 to 6 months.

Anthony N. Cutrone
Executive VP & CFO

Yes. And I'll just add to that, Bill, for the quarter, our originations were $9.8 million for strategic partnerships versus just about $5 million in Q1. And so that growth is specifically related to our new partner.

William J. Dezellem
Tieton Capital Management, LLC

And do you consider Covered to be fully ramped at this point? So that $9.8 million is now a steady-state run rate? Or we still have lots of ramp to go with them.

Anthony N. Cutrone
Executive VP & CFO

They started mid-quarter. So I don't think the $9.8 million to run rate. I would expect that to be slightly higher.

William J. Dezellem
Tieton Capital Management, LLC

Would you like to put some numbers around that?

Andrew M. Murstein
President, COO & Non-Independent Director

It's hard to do so because it's a third party giving us projections on how they're willing to do -- how they're expecting to do. Many of them, though, are bullish about the market. Lenders of those types are really very sought after now and as financial institutions are moving more and more online, into more fintech. It's one of the fastest-growing segments out there. So we're hopeful that they'll continue to increase their deal flow and return our fee income.

Anthony N. Cutrone
Executive VP & CFO

Yes. And I think there is a fair amount of ramp that they still need to get through. So as they progress through that, we should see originations increase.

William J. Dezellem
Tieton Capital Management, LLC

Great. And then relative to the fourth partner that you were hoping to sign up, how are you viewing or expecting that partner's volume to be say, relative to Covered because it sounds like Covered might be your largest volume fintech that you've signed up so far?

Andrew M. Murstein
President, COO & Non-Independent Director

Hard to tell, there's actually several in the hopper. So I'm not sure which one will get to the finish line first to be the fourth. But we're starting to move up scale, which is nice. You kind of put your toe in the water when you're starting a business line, at least we do, we act very cautiously at the beginning. We want to make sure our controls are in place, and everything is working smoothly.

And then bit by bit, you get larger, more attractive partners. And we're at that stage now where we're past the growth stage and starting to really attract some of the higher volume partners that are out there. So the hope is whoever the fourth partner is will be as high, if not higher than the previous 3.

William J. Dezellem
Tieton Capital Management, LLC

And I'm going to ask another question just on this. So really from a point of ignorance that now that you have the controls, compliance, et cetera, and all of that in place, why not bring on 4 new partners between now and the end of the year or 14 new partners rather than one? What are the limiting factors in the practical reality of bringing on a new partner?

Andrew M. Murstein
President, COO & Non-Independent Director

It's really just to get it right. We do a lot of due diligence on the partners. Other firms I've heard will sign up a partner as quick as 30 days after the initial meeting, we're usually 3 to 6 months. So we really want to do our share of due diligence to make sure they're compliant, that they are geared to doing well long-term also. We're not looking for short-term partners. So we want to make sure that they have the proper procedures in place that will get them to the next level.

So there's nothing to say that we can't get a fifth partner this year, but the thought is just to keep moving cautiously as we've been doing and effectively.

Anthony N. Cutrone
Executive VP & CFO

Yes. And I'll just add that each of these partners is unique in their own way. So the compliance management systems we have to put in place have to be tailored to each one specifically. So it's not just cookie cutter. We're actually building out a model that works with each one of these partners. So it's a little more on the -- in the background that people don't generally see.

William J. Dezellem
Tieton Capital Management, LLC

Great. That's helpful. And if you don't mind, I'd like to go to one additional direction, which is the Medallion collections. Congratulations on the $13.1 million. Would you please just discuss that holistically and how that fits into the grand scheme of things? I think that might be the largest collection number you've had in many, many quarters.

Anthony N. Cutrone
Executive VP & CFO

Yes, we won't pat ourselves on the back because these are -- as we've said in the past, these collections are lumpy, although we'd like to replicate that going forward. I think that's a hard hurdle to hit. We've been in constant negotiations and discussions with a lot of delinquent borrowers for some time now. And I think what we're seeing, starting in 2021, and through June 30 is those fruits being born.

The $13.1 million -- in terms of the geography on the balance sheet, it reduced our exposure, and it generated some $5.2 million of income on the income statement, about $2.5 million in the provision and $2.7 million of other income related to the sale of loans in the process of foreclosure to the disposition of those assets.

Operator

Our next question comes from the line of Mike Grondahl with Northland Securities.

Unknown Analyst

This is Luke on for Mike. Congrats on the quarter. Just wanted to touch here on the share repurchase program. So you guys bought back the $10 million this quarter. I think it was $7.84 per share. How are you guys thinking about the remaining $25 million on the buyback?

Anthony N. Cutrone
Executive VP & CFO

Yes. I think Andy said earlier, we remain optimistic and opportunistic about repurchases. We think the stock is undervalued at these levels that we've seen, especially through the past month. So we'd like to be buying back stock. It's a delicate balance. We still want to continue to grow our business.

So in order to grow, we need capital. So there's definitely a dance that we're going to do between buying back stock and returning cash to shareholders and continuing to grow our business, which ultimately is going to be in the best interest of our shareholders.

Unknown Analyst

Got it. And then forgive me if I missed this earlier, but what was driving the strength in originations on the rec and home improvement side and also the yields here?

Andrew M. Murstein
President, COO & Non-Independent Director

Well, I think it's just being a leader in that sector. We've been doing it for over 20 years, what the management has. We got into the business in 2004, and they have been doing it for Leucadia prior to that.

So we've really got a great network of thousands of dealers around the country who think of us first as often as possible. Give us first looks at many deals. We've been loyal to them. They've been loyal to us through thick and thin when the recession in 2008. We stayed in the business; other lenders left.

So it's really just building up years and years of loyalty and expertise.

Operator

And our next question is a follow-up question from Gates Schwarzmann with B. Riley Securities.

Gates Schwarzmann
B. Riley Securities, Inc., Research Division

Just curious, how should we approach credit normalization in this environment? Just curious what you guys are sort of thinking in terms of credit cost and reserve levels here moving forward?

Anthony N. Cutrone
Executive VP & CFO

Sure. Our net charge-offs remain extremely low. Typically, we see -- historically, when I say historic, I'm not talking about the past 18 or 24 months. But historically, we've seen charge-offs on the rec portfolio that hover around 350 basis points. And on the home improvement side, around 75 basis points. We're well below that. So at some point, we do think it normalizes, although we're not seeing it.

Our delinquencies, 90-plus day loans at 30 basis points on the portfolio. So it's extremely low. And at some point, we do expect that to normalize. And we thought -- last year, we thought it was last year, we thought it was going to be this year. We're just not seeing it yet.

Operator

And there are no further questions. At this time, I'll turn the call back to you for closing remarks.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you again, everyone, for joining us on the call today. It was probably one of our longer calls. We had probably the most questions that we've had, which we love. We love to hear from people and the more you know about us, I think the more that you'll like.

So please call us with any follow-ups you have. You could always reach us or our Investor Relations team. The contact information is on the last page of our earnings supplement as well as the IR section of our website.

Thank you again, everyone, and have a great day.

Operator
That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

Presentation

Operator

Ladies and gentlemen, greetings, and welcome to the Medallion Financial Third Quarter 2022 Earnings Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded. I will now turn the conference over to Ken Cooper with Investor Relations. Please go ahead.

Ken Cooper

Thank you, and good morning, everyone. Welcome to Medallion Financial Corp.'s third quarter earnings call. Joining me today are Andrew Murstein, President and Chief Operating Officer; and Anthony Cutrone, Chief Financial Officer.

Certain statements made during the call today constitute forward-looking statements made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements.

Those risks and uncertainties are described in our earnings press release issued yesterday and in our filings with the SEC. The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update these forward-looking statements.

In addition to our earnings press release, you can find our third quarter's presentation on our website at medallion.com and clicking Investor Relations. The presentation is near the top of the page.

With that, let me now turn the call over to Andrew. Andrew?

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you, Ken. Good morning, everyone. We are very pleased with our results this quarter. We had another quarter of strong loan originations, which drove growth in our net interest income. This comes in a quarter where we continue to see rising interest rates. The growth in our consumer and commercial lending businesses continues to yield positive results.

We earned $7.6 million for the quarter and $30.8 million for the year-to-date period. For our total company, the $274 million of loan originations was up 40% over last year's quarter, and resulted in solid loan growth for us. Each of our consumer lending segments had a good quarter.

Home Improvement continued to be our fastest-growing segment with 44% loan growth, our Marine and RV business with 25% growth, and our commercial segment with 30% loan growth. The loan origination activity was a key driver of a 23% increase in net interest income.

It is also important to note that we did start to see some benefit from recent pricing actions we put in place on new loans originated. During times of increasing rates, one of the levers we can use to protect our bottom line is to raise our loan rates. We typically are a fast follower rather than a leader in this, and this period of rising rates is no different.

Regarding capital allocation, we declared and paid a dividend of $0.08 per share during the quarter. In addition, we used $8.2 million of cash in the quarter to repurchase roughly 1.1 million shares of our common stock. We recently increased the total available under the plan from $35 million to $40 million, and we ended the quarter with $21.8 million available under the plan.

With that, I will now turn the call over to Anthony, who will provide some additional insight about our quarter.

Anthony N. Cutrone
Executive VP & CFO

Thank you, Andrew. Good morning, everyone. Net interest income of $42 million grew 8% from the second quarter and 23% from the previous year's quarter, with the increase being directly attributable to loan growth and the high yields earned on our loans.

Our net interest margin was 8.91% for the quarter, a decrease of 16 basis points from the second quarter and 57 basis points from the prior year quarter. Part of this is driven by growth in our Home Improvement segment which carries a lower yield in our rec and commercial segments and to a lesser extent, due to an increase in our cost of funds.

We expect our cost of funds to rise near term if prevailing interest rates continue at or arise from these levels. As we've said for the past several quarters, we expect rising interest rates to have a compressing effect on our net interest margin, which is what we began to see in the third quarter.

We also expect to increase the rates we charge on our new originations, which we've begun to do over the past 2 quarters, and we believe that despite contraction in our net interest margin, the growth in our loan portfolio will counter that compression and allow us to maintain these levels of net interest income.

The loan loss provision was $10 million, up from $7.8 million in the second quarter and up from a benefit of $300,000 in the prior year quarter. Current quarter provision, in addition to the growth penalty we incur when growing our loan portfolio, including an increase in charge-offs in our consumer loans, lower recoveries on our Medallion loans as well as higher charge-offs with respect to our commercial loan portfolio.

Our operating cost as a percentage of net interest income came down for the third consecutive quarter and was 46%, as we continue to grow, we expect operating costs to continue to rise but at a lesser rate than our top line.

Additionally, we continue to experience higher legal and professional costs which will continue to fluctuate and remain elevated in the coming quarters. Net income attributable to Medallion Financial shareholders was $7.6 million for the quarter compared to $15.9 million in the previous year quarter.

The decrease in earnings from a year ago is attributable to the increased loan loss provision I referred to earlier as well as the absence of a $2.7 million equity gain earned on a fintech investment in the prior year, offset by the 23% growth in our net interest income.

Our diluted earnings per share was $0.32 for the quarter and was $1.26 for the 9-month period. One last note on the Medallion segment. During the quarter, we collected $5 million related to these assets, which helps further reduce our net Medallion exposure to $27.6 million down from $47.3 million just a year ago.
That covers our third quarter financial overview. With that, Andrew and I are happy to now take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mike Grondahl from Northland Securities.

Unknown Analyst

This is Owen on for Mike. What was the yield on both RV and boat loans as well as home improvement for this year as compared to last year?

Anthony N. Cutrone
Executive VP & CFO

So on the rec portfolio, our yield is down about 46 basis points from a year ago, the coupon stands around 1421 weighted average on that portfolio. On the home improvements, our coupon sits about 855 and it's down slightly at 10 basis points from a year ago. The decrease from a year ago in the home improvement, it's primarily due to credit as well as competitive pressures.

Unknown Analyst

Got it. And then one more quick one. What was the average CD rate during the quarter? And where is it today? And what was the blended rate of the portfolio at the end of September?

Anthony N. Cutrone
Executive VP & CFO

Sure. So the blended rate is 163 basis points at the end of September. Today, at the end of the quarter, we were putting on CDs in the 350 to 450 range. They've come up slightly ahead of whatever Fed action happens in a week or 2. Last year at this time, we were probably around anywhere from 20 to 110 basis points, so there's been some pretty rapid movement there on the debt side.

Operator

Our next question comes from the line of Matthew Howlett from B. Riley.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Just on the outlook for growth, I mean, it's still very strong about the home improvement, to the consumer segment. I think last quarter, you said that things could slow. You're obviously raising rates, you are tightening. Any update on the outlook? It looks still very strong. Just update on both segments, what you're seeing from dealers, what are you seeing from your partners on the home improvement side.

Andrew M. Murstein
President, COO & Non-Independent Director

Growth continues to look solid. We've been trying to grow market share. Obviously, 40% growth is pretty significant. So -- but part of it is seasonality. We usually have a lot more applications in Q2 and Q3. So we'd expect it to slow down. But as opposed to last year, I'd say it's very solid in terms of what we think is ahead.

Anthony N. Cutrone
Executive VP & CFO

Yes. And I'd agree with that. The consumer is still really strong. We're not seeing any significant signs of slowdown, but we know that they're coming.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Right. You see -- you are still raising rates? Are you still being more selective on originations tightening? Is that still a trend? Has anything changed from sort of the comments last quarter?

Anthony N. Cutrone

Executive VP & CFO

Yes. No change there. For the past 2 quarters, we've been increasing, there's a lag on when that actually trickles onto our income statement, and we actually see the benefit of it. There's anywhere from a 30-day to a 120-day lag in our consumer business, depending upon the recreational vehicle or the type of home improvement and when we actually commit to these loans and when we actually fund, so we should start seeing that hit the top line in the next quarter or two.

I think we're probably going to experience upwards of 400 basis points in terms of increased costs when we get through this cycle. I don't know that it will be dollar for dollar because we had a significantly large margin to begin with. But I could see our top line going up 300 basis points when this is done.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Got you. And that was sort of my next question. On the cost, the delinquencies are obviously very low. The credit remains pristine. I mean, it's been a lot out there about the used car market. I know you -- I'd love to hear more about what you're seeing on the RV side, whether it's -- the patterns are similar to what we're seeing from a broader used car market in the U.S. I mean any normalization, has it started? And are you -- any more additional color on trends you're seeing.

Anthony N. Cutrone
Executive VP & CFO

In the Q, we did see an uptick in charge-offs. Our delinquencies remain low. And we think at some point, it normalizes the charge-off experience, we're starting to get back to that normal historic level. But like I said, the consumer still remains strong, and we're just waiting for a pullback.

Andrew M. Murstein
President, COO & Non-Independent Director

I'll add also that the management team who's obviously done a great job for us when they were running the bank prior to us, forming our bank, they've worked for Leucadia. They also went into the auto finance business. And we've never touched that, to be honest.

It's really a very different credit model than what we do, over time, the auto finance business have not done really well. And even if it has done well, just with cycles has heavy losses, and we've never entered into that field, or niches, as you know, even in 2008, '09, '10, when we were in a recession, still performed extremely well, and we'd expect to come out well out of the next recession as well.

Anthony N. Cutrone
Executive VP & CFO

Yes. And that experience was before we had the Home Improvement division, which historically has a lower charge-off experience than our rec.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Right. It's much higher FICO. And then last question. The other income line, I mean, there's a little bit of a loss in the quarter, there was a big gain last quarter. I mean how -- we think about that line going forward, is going to move the bottom line around, should we just sort of zeroed out? Do you think there'll be just long-term sort of gains on average over time, given some of the fintech investments. Just walk us through how we should look at that line given it's lumpy.

Anthony N. Cutrone
Executive VP & CFO

Yes. I think lumpy -- I wish there was a better word to describe it, but we've used that in the past. During the quarter, we took about a $1 million charge on one of our equity investments that's tied to our mezzanine lending division. In the prior quarter, we had a $4.2 million gain tied to that division. So lumpy is the right word to describe it.

We're going to -- it's hard to predict these exits. And when they occur, it's not a smooth earning. It's aggressive, and it's onetime. Last year, we had a lot of gains on the disposition of a fintech investment. So we're -- I think, unfortunately, that's the lumpiness you're going to see in our earnings going forward.

Andrew M. Murstein

President, COO & Non-Independent Director

And also to add, long term, it usually smooths out, so to speak. So we went back and we looked at the results here over the last 20 or so years. We entered into this business in 1998, actually. And the results -- we can't guarantee any results in the future, of course. But the results historically have averaged about 13%. So it's been a very successful division for us. But as Anthony points out, it could jump around.

Operator

Our next question comes from the line of Mike Grondahl from Northland Securities.

Unknown Analyst

This is Owen again. Were there any taxicab recoveries collected during the quarter?

Anthony N. Cutrone
Executive VP & CFO

Sure. Yes. We did have some, it was probably about $0.5 million that hit the income statement. I think last quarter, it was some $6 million that hit the income statement. This quarter, it's less. We've always said that those recoveries, we expect to recover a fair amount. But similar to our -- the gains and the losses on the equity investments that over time produce positive results, it's lumpy and it's hard to predict those.

Unknown Analyst

Got it. And then can you break out that chart.

Anthony N. Cutrone
Executive VP & CFO

I'm sorry, I said $500,000. It was actually $1.8 million in the quarter.

Unknown Analyst

Okay. Got it. And then total net charge-offs related to recreation, home improvement, commercial Medallion. Can you break that out?

Andrew M. Murstein
President, COO & Non-Independent Director

Yes. So the -- it was $7.7 million, $4.2 million of that related to the rec portfolio, $1.1 million was home improvement, $3.9 million of that was commercial and then a $1.5 million recovery in Medallions.

Unknown Analyst

Okay. And one more quick one. The $10 million provision for loan losses, what was that for?

Anthony N. Cutrone
Executive VP & CFO

Yes, so it's that net recovery you're seeing, the $7.7 million we just spoke about as well as the growth penalty we get by increasing our loan portfolio. So the reserves are right around 400 basis points on the rec loans and about $175 million, plus or minus on the home improvement loans. So to the extent that, that continues to scale that portfolio, but we do record provisions on that, and that runs through our income statement.

Operator

Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. And now I would like to turn the conference over to Mr. Andrew Murstein, President, for closing comments.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you again for joining us on our earnings call. For our employees on the call, thank you for everything you do to make our company great. For those of you who are shareholders of Medallion on this call, thank you for your investment and your trust.

As always, if you have any questions, please feel free to contact our Investor Relations team. The contact information is on the last page of our earnings supplement as well as the IR section of our website. Thank you, and have a great rest of your day and weekend ahead.

Operator

Thank you. The conference of Medallion Financial has now concluded. Thank you for your participation. You may now disconnect your lines.

Presentation

Operator

Greetings, and welcome to the Medallion Financial Fourth Quarter 2022 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ken Cooper, Investor Relations. Thank you, Mr. Cooper, you may begin.

Ken Cooper

Thank you, and good morning, everyone. Welcome to Medallion Financial Corp.'s Fourth Quarter and Full Year Earnings Call. Joining me today are Andrew Murstein, President and Chief Operating Officer; and Anthony Cutrone, Chief Financial Officer. Certain statements made during the call today constitute forward-looking statements made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Those risks and uncertainties are described in our earnings press release issued yesterday and in our filings with the SEC.

The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update these forward-looking statements.

In addition to our earnings press release, you can find our fourth quarter supplement presentation on our website by visiting medallion.com and clicking Investor Relations. The presentation is near the top of the page.

With that, I'll turn it over to Andrew Murstein, President.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you, Ken. Good morning, everyone. Medallion Financial had a great year, highlighted by the continued growth of our consumer lending businesses. Our people have done an exceptional job growing our assets with our long-term success in mind. Also noteworthy is that after more than five years, we were able to reinstate our quarterly dividend in 2022. We were able to purchase over $20 million of our common stock during the year, and we were able to get back to what we had done best for so long to provide a cash return to shareholders.

We generated $43.8 million of net income in 2022 as compared to $54.1 million in 2021. I'd like to unpack that for you so you can appreciate how strong both years were for us. In 2022, with the growth of our loan portfolio, we saw an increase of $32.6 million in our net interest income despite rising interest rate. A loan loss provision trended back towards its normalized level as we [selected] in our provision for the year of $30.1 million, which was $25.5 million greater than last year's historically low provision of $4.6 million.

Additionally, last year, we had $16.3 million of gains, which were not repeated this year. This included sales of investments that resulted in the combined gain of $11 million, the gain on extinguishment of debt of $4.6 million on the sale of a noncore asset for $700,000 gain. Taking all of these items into consideration, our 2022 performance was excellent across the board. In 2022, Home Improvement continued to be our fastest-growing segment with 43% loan growth to $626 million.

We also saw growth in our Marine and RV business, which had 23% loan growth to $1.2 billion of loans and our commercial segment had 21% loan growth to $93 million. Over the past year, we continued to enhance our business. We maintained our rigorous credit standards and expanded our [indiscernible] as well as the number of dealers, contractors and financial service providers who help us originate loans.

And finally, during times of increasing interest rates, one of the levers we use to protect our bottom line is terrain our own loan rates. We have done that to a degree in the past year, which has helped us deliver our results.

On capital allocation, during the quarter, we declared and paid a dividend of $0.08 per share, and we used $1.8 million of cash to repurchase over 257,000 shares of our common stock. For the year, we had $0.32 per share of dividends, and we repurchased over 2.6 million shares of stock with $20.6 million.

We had $20 million remaining under our current share repurchase plan as of December 31, 2022. Delivering shareholder value remains one of our top priorities. In addition, for 2023, we plan to stay focused on prudently growing our loan portfolio. We will continue to focus on quality assets and not to chase volume. It's the same thing we did in our last recessionary environment in 2008 and 2009, and we came out of that period stronger.

With that, I will now turn the call over to Anthony, who will provide some additional insights about our quarter and year.

Anthony N. Cutrone
Executive VP & CFO

Thank you, Andrew. Good morning, everyone. As Andrew mentioned, we had a great fourth quarter. We capped off a great year. For the quarter, net interest income grew 22% to $44 million from the prior year quarter and grew 26% to $160 million for the year. The driver of this being growth in our loan portfolio, which now stands at $1.9 billion and reflects a 29% increase from a year ago.

Our net interest margin for the quarter was 8.86% and was 9.05% for the year. During the year, we saw a compression in our net interest margin, the result attributable to two factors. The continued growth in our Home Improvement segment, the prime loans of which carry a lower coupon than our other lending segments as well as and, to a lesser extent, an increase in our average cost of funds.

For the quarter, our average cost of funds was 2.49%, with certificates of deposits, our largest source of borrowing, having an average rate of 1.91% at the end of the year. As we've said for some time now, we expect our cost of funds to increase throughout 2023 as we issue new certificates at current market rates that will fund our continued growth and to replace those maturing.

Increase in our cost of borrowing will continue to impact our net interest margin, but despite this, we do expect that the continued growth in our loan portfolio will counteract this compression and allow us to grow our net interest income. Our loan loss provision continued to gravitate back to historical levels in the fourth quarter. The loan loss provision was $9 million for the quarter, up from $3 million in the 2021 fourth quarter.

For the year, our provision for loan loss was $30 million, increasing $25 million from a year ago. The increase over last year is a result of higher net charge-offs as we get back to a more normal level of charge-off experience, an increase in our loan loss allowance rates for the consumer loans, an 18 basis point increase for recreation loans and a 13 basis point increase for home improvement loans as well as the need for increased allowances specific to new loans as we grow our portfolios.

Our operating costs decreased to $16 million from the prior quarter, primarily due to lower salary and benefit costs and lower professional fees. We were pleased with this reduction in cost during the quarter, but do expect volatility in our professional fees to continue over the near term. Net income attributable to Medallion Financial shareholders was $13.1 million for the quarter and $43.8 million for the year. Our diluted earnings per share was $0.57 for the quarter and $1.83 for the year. That covers our fourth quarter and full year financial overview.
With that, Andrew and I are now happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Matthew Howlett with B. Riley Securities.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Excellent performance here. And I want to touch on a few things. First on the ability to pass through these higher funding costs. I recognize the mix shift here in the quarter, but the lower home improvement, the higher prime home improvement growing. But what's the sort of outlook and ability to just continue to raise pricing for the mix things from some of the banks in the auto space. I'd love to hear what you guys are seeing in your segment.

Anthony N. Cutrone
Executive VP & CFO

We can go into that. So we have -- throughout 2022, we have been able to raise rates on both consumer products, the rec and the home improvement. At the end of the year, we're probably about 300 basis points higher on new loans than we were at the end of 2021 for rec loans. And Home Improvement is about 150 basis points higher.

It hasn't quite translated and shown up in the income statement yet in our yield just because the new loans going on and the ones coming off probably written three years ago, more or less. So the rates are somewhat comparable. We do expect over time to that, that will show up.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

To 300 and 150. Is that -- did I hear you correctly? Year-over-year?

Anthony N. Cutrone
Executive VP & CFO

Yes.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

I'm just, incredible. Okay. Well, it sounds like you can really continue to originate that and raise the -- so I guess my next question is on the consumer. I mean, obviously, everyone talks about it. We know that pullback's coming at some point or a slowdown.

How do you -- obviously, the credit is holding up here, it's been resilient. And what -- in your segments, I mean, it's higher quality than we've seen in the past, especially with the prime home improvement. What can you just tell us about the pullback in demand and/or some normalization losses? I mean can you give us a cadence this year? Had you not really seen it yet so far? Just anything on that is the topic to your [indiscernible], please.

Anthony N. Cutrone
Executive VP & CFO

Home improvement demand continues to be strong. We haven't seen any significant pullback. We think in terms of going into 2023, we -- originations will be strong. We don't know that we'll be able to grow. We don't think we'll be able to grow originations at the levels we have over the past two years. But we do think, overall, that portfolio will continue to grow throughout the year.

And similarly, in rec, we do expect to grow that portfolio in 2023, although somewhat nice to see. In 2022, we saw a return to normalized activity in terms of volume. The seasonality associated with the rec portfolio, which we didn't experience in 2021.

We did see that started in Q3, and we did see that in Q4 in the rec. We think demand drops on the rec side, but even with the drop, I think we get back to more normalized levels of demand with our increased rates, the drop, we still think we're able to grow that book.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Got you. And in the rec, just remind me again the second and third quarter are the strongest seasonality-wise? Volumes?

Anthony N. Cutrone
Executive VP & CFO

Yes. It follows the seasons, right? So Q4 is slow, Q1, it's slow and then it starts to pick up, weather gets nice, people want to be outdoors.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Got you. Okay. And then just the last question. Looked like we get excited when I see these expense management. I know that -- I think you said professional fees line, it's going to be lumpy, obviously. But I mean, can you just tell us anything on that operating expense now you took a lot of cost out. I'd love to see the professional fee line steady from here. But any sort of -- what's the volatility we can expect on the operating expense line in '23?

Anthony N. Cutrone
Executive VP & CFO

Yes. Professional fees, like stated it earlier, we expect that to fluctuate some in the near term. As far as other operating costs, we'll see those -- as we're trying to grow this business. We're trying to grow our balance sheet. We're trying to grow our bank.

So as that happens, we're going to have to increase costs. But obviously, those increased costs should correlate at a lower rate than the increase on the assets and the increase on our top line.

Operator

Our next question comes from Mike Grondahl with Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

My first question is, Anthony, would you say that the 300 basis point increase on the rec pricing and the 150 basis points on the Home Improvement, do you think that's going to offset the higher CD pricing? Like how do those two balance out?

Anthony N. Cutrone
Executive VP & CFO

Yes. It doesn't offset it. It's not dollar for dollar. We're dealing with higher-priced loans than a traditional bank. So for every 100 basis points of cost of funds, we can't push through that 100 basis points. But that's just -- that's just part of it when you've got a high-yield portfolio. You can't always push through every cost.

But we've probably seen -- I mean we know what interest rates have gone up over the past year. So being able to push through 300 on our rec portfolio. We like those numbers. And on the prime lending and the Home Improvement being able to push through 150, we still think that's good. Just unfortunately, it's not going to be dollar for dollar.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And then the $5.2 million of Medallion collections, which was nice to see again, how did that flow through the P&L?

Anthony N. Cutrone
Executive VP & CFO

Sure. So about $2 million flow through the P&L in terms of recoveries in Q4, both on loans and on the Medallion assets, and then $3 million or so was the reduction in our Medallion exposure from the end of Q3.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. Got it. And with CECL, the press release talks about, I think it was $13.8 million more added to reserves for adopting that, what is pro forma Tier 1 capital? Usually, you guys have disclosed that in the past. But where is Tier 1 capital, pro forma for CECL?

Anthony N. Cutrone
Executive VP & CFO

Yes. The $11 million doesn't have a significant impact where we think it's going to -- and we've got the ability on that $11. It's $13.8 million in consolidation, $11 million is specifically a Medallion Bank related to the consumer products. So that $11 million is not going to have a huge impact on our Tier 1, and we've got the ability over three years to phase that impact in the Tier 1 calculation.

So we don't see that being a big burden for us. Where we will see it is on the origination side, as we continue to grow, our provisioning is going to be higher than what it was up until the adoption of CECL. And that's going to run through our income statement. It's going to reduce our income some, and that's going to be where we've got some constraints in terms of capital.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. Can you tell us how to think about, at a high level, how we should model that? So, obviously, I think you're saying your provisions are going to be a little bit higher because you need to recognize those at the time of origination. I don't know what is a normal origination environment in 1Q '23? What does provision look like?

Anthony N. Cutrone
Executive VP & CFO

So on new loans in the Home Improvement segment, we -- our initial reserve is about 181 basis points. With CECL, we're going to be around 205. We got about a 24%, 25% basis point increase in the initial reserve. And then when we move to rec, we're at 355 up until the end of 2022, that goes to 447 with day one transition. And when you do the math, that's how the $11 million on the consumer -- the initial reserve impact.

That's how it comes about -- comes to play. With CECL, we're going to looking at future expected losses from a 12-month -- as opposed to looking at a 12-month period. So to the extent that losses increase, charge-offs increase, we're going to see some volatility in our reserving, our allowance, our initial allowances are going to have to go up. So there could be some swings, but -- that's just part of gap that we have to live with now going forward.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And so there's nothing constraining on your growth from a capital standpoint, like Tier 1, I remember at the bank, you needed 15%, because of CECL, you don't have any governor on growth or anything like that. You have ample capital to keep growing.

Anthony N. Cutrone
Executive VP & CFO

I think that's fair. So at the end of the year, the bank's Tier 1 was 16.2%. So -- and the CECL impact, the day 1 CECL impact doesn't have -- doesn't really affect that number because we are able to pull it in and adjust it over three years.

Like I said before, it's -- to the extent that the provisioning is higher because of CECL with our growth, that's going to trickle down to the bottom line and that increase in equity isn't going to allow for excessive growth and growth at the levels that we've seen in the past couple of years. But we're also expecting growth to come in. So we don't necessarily think it's going to hurt us all that much.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And then, hey, just lastly, credit quality is normalizing from a very low level. CECL kind of catches that up even a little bit more. How are you guys feeling about charge-offs over the course of '23?

Anthony N. Cutrone
Executive VP & CFO

We think Home Improvement is actually back to the historical levels of what we've seen. Rec is still low. We think we get a normalized charge-offs are in the high 2s. We haven't gotten there yet. So we do expect that to tick up a little bit. But we've been surprised for the past two years about how low charge-offs are to be in. So we'll see what happens.

Andrew M. Murstein
President, COO & Non-Independent Director

And [Ken], I'll add on that point, there's a good slide on our website that we just put up showing loan losses in rec and Home Improvement for many years, over 15 or so years. So it shows how we did through a recession and how we manage. So I'd recommend people look at that.

We feel comfortable in that the last big recession we saw in 2008, '09, the losses went up but never really to a level that alarmed us and then they went significantly down after that. And our portfolio is in a lot better shape today than it was back in 2008 and '09.

And we've raised our FICO scores in the rec through the years. And Home Improvement, we don't even have back then. We only started out in 2012 and that 760 FICO scores, A quality paper. So we're even in better shape today than we were in the last recession.

Michael John Grondahl
Northland Capital Markets, Research Division

Yes. No, I saw the chart. It's helpful. And just speaks to the long track record. Good credit quality. Thanks. I appreciate that.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back over to Andrew Murstein for closing comments.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you again for joining us to hear our business update. One item to note, we just added several slides, as I just mentioned, to our earnings supplement presentation, which can be found on our home page, and I encourage you to review this stack. It gives a nice snapshot as to our strategy and performance. We appreciate your interest in our company.

Our entire team is working hard to deliver shareholder value. We have accomplished a lot over the years and believe we have a very bright future. As always, if you have any questions, please reach out the contact information for our Investor Relations team is on the last page of our earnings supplement as well as within the IR section of our website, medallion.com.

Thank you, and have a great rest of your day.

Operator
Thank you. condolence. You may disconnect your lines at this time. Thank you for your participation.

Presentation

Operator

Good day, and welcome to the Medallion Financial First Quarter 2023 Earnings Conference Call. [Operator Instructions] Please note that this event is being recorded.

I'd now like to turn the conference over to Mr. Ken Cooper, Investor Relations. Please go ahead, sir, at this time.

Ken Cooper

Thank you, and good morning, everyone. Welcome to Medallion Financial Corp.'s First Quarter Earnings Call. Joining me today are Andrew Murstein, President and Chief Operating Officer; and Anthony Cutrone, Chief Financial Officer.

Certain statements made during the call today constitute forward-looking statements made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Those risks and uncertainties are described in our earnings press release issued yesterday and in our filings with the SEC. The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update these forward-looking statements.

In addition to our earnings press release, you can find our first quarter supplement presentation on our website by visiting medallion.com and clicking Investor Relations. The presentation is near the top of the page.

With that, I'll turn it over to Andrew Murstein, President.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you, Ken. Good morning, everyone. Medallion Financial had a great start to 2023 and one of our strongest quarters in our almost 27 years as a public company. We performed well in all areas of our company, highlighted by the continued growth of our consumer lending businesses, a good quarter in our commercial lending area and a strong quarter of cash collections from our Medallion assets.

We generated $15.4 million of net income or $0.67 of earnings per share. Our return on equity was a little over 20%, and our return on assets was nearly 3%. Those are impressive returns and good indications of another strong quarter. Our net income performance included a strong year-over-year growth rate, driven by maintaining our consumer businesses in this challenging environment with outstanding performance from our Medallion collections team. We collected over $13 million in cash in the quarter, which is higher than normal.

There was not one single driver for this. It was a team effort. As we have said all along, we believe a portion of our Medallion assets will be paid back, and payment patterns will vary over time. We will have great months, average months and low months. But the good news is that we have the most experience in this space with significant relationships across the industry.

With the growth of our loan portfolio, we increased net interest income 21% year-over-year to $43.6 million. More importantly, like we were saying what happened since the prospect of rising rates was first introduced last year, our growth in loans has helped to offset rising interest rates that raised our funding costs. This has allowed us to maintain our net interest income from the fourth quarter.

Our provision for credit losses has been trending back towards its normalized level. However, with significant recoveries from our Medallion assets, our provision for the quarter at $4 million was lower than anticipated.

I'd now like to provide a quick update on our business. Home improvement continued to be our fastest-growing segment. Originations remained strong and continued to be related primarily to popular projects like roofs, windows and pools. Our recreational business, which is mainly loans for smaller boats and RVs, had over $100 million in originations, which is below peak levels, but we believe is still strong performance. Our average interest rate has remained at over 14%. Finally, our commercial business reached $95 million in loans outstanding, up from $78 million 1 year ago. It also earned just over $1 million for the quarter and has a solid pipeline that should lead to increased originations in the future.

A quick update on capital allocation. For the fifth consecutive quarter, we declared and paid a dividend of $0.08 per share. We did not repurchase any stock back in the quarter. With the instability the banking sector has experienced these past several months, we felt it was prudent to retain our capital, to use a portion of that capital to fund growth and to continue to prepare for the future.

As I look at the overall health of our business, given the recent events within the banking environment, I thought it was important to remind you that we remain confident in our business model and our strategy as a specialty finance company. One way we are deliberately different than other financial institutions is our longtime use of broker deposits to fund our loan growth.

Broker deposits not only help us manage our borrowing costs, they also provide a safety since broker deposits have no right of voluntary withdrawals. In addition, we mitigate risk with a relatively small investment portfolio associated with these deposits and limited unrealized gains or losses. Ultimately, we believe this leads to our business model being resilient under a wide variety of conditions.

With that, I will now turn the call over to Anthony, who will provide some additional insight about our quarter.

Anthony N. Cutrone
Executive VP & CFO

Thank you, Andrew, and good morning, everyone. For the quarter, net interest income grew 21% to $44 million from the prior year quarter, the driver of this being growth in our loan portfolio, which now stands at just under $2 billion. We were able to maintain our net interest income from the fourth quarter, growing our interest income to counteract our rising cost of funds. Our net interest margin on gross loans was 8.42% for the quarter as compared to 8.91% in the prior year quarter. As we've said for the past few quarters, this contraction in NIM was expected given the current interest rate environment.

Our provision for credit losses, which in the past we've referred to as loan loss provision, the terminology having changed in connection with our adoption of CECL, was $4 million for the quarter compared to $3.2 million in the prior year quarter. Current quarter provision included a $7.1 million benefit with respect to recoveries in the Medallion segment. Excluding this benefit, the increased provision is a result of the continued normalization of losses to historic levels in our consumer portfolio as well as the higher provisioning which we must take in connection with our adoption of CECL as our loan portfolio grows.

Our operating expenses of $18.4 million increased 2% from the prior year first quarter, which included higher salary and employee benefit costs associated with our growth as well as lower legal and professional fees. While we continue to be vigilant in overseeing operating costs, the 2% increase pales in comparison to the 29% growth in interest income and 21% growth in net interest income we experienced over the prior year quarter. Our diluted earnings per share was $0.67, with $0.28 of that being attributable to Medallion asset recoveries.
That covers our first results. With that, Andrew and I are now happy to take your questions.

Question and Answer

Operator

[Operator Instructions] First question is from Matt Howlett from B. Riley.

Michael Schafer
B. Riley Securities, Inc., Research Division

This is Michael Schafer on for Matt. I see yields declined in the home improvement segment. Can you run through why that is?

Anthony N. Cutrone
Executive VP & CFO

Matt, so the yields came down from a year ago. There's a lot of things other than the coupon which go into our yield calculation. In the prior year, we had some amortization. Origination costs get amortized out. We typically look at the coupon rate, which from Q4 and Q1 of last year has increased in each period.

Michael Schafer
B. Riley Securities, Inc., Research Division

Okay. Great. And also, covering the $500 million or so of CDs coming due in 2023, can you discuss the rates on those?

Anthony N. Cutrone
Executive VP & CFO

Sure. So all in at the end of March, our CD cost of -- our CD rates were about 2.35%. In March, we saw an increase in rates to around 4.95% for 36-month CDs. That's come in about 50 basis points to the present day. So assuming no further action, maybe CD rates come down a little bit longer -- come down a little bit more. The interesting is that when you go out even further, the rates are slightly lower. So we do anticipate some net interest margin compression throughout the remainder of the year related to that.

The good news is that we have -- over the past 1.5 years, we've been able to increase the rates on our consumer loans and our commercial loans. And although it's slow to turn the ship, we've got to wait until some of the older loans run off and the newer loans become a larger portion of the portfolio. We do expect to see continued growth in our yield and our coupon.

Michael Schafer
B. Riley Securities, Inc., Research Division

Okay. Got it. And so on net interest margin, right, I heard you made some comments on that and from your prepared remarks as well. Could you give some guidance on what the expectations are and where that will bottom out?

Anthony N. Cutrone
Executive VP & CFO

It's tough to say. There's so many factors involved, especially when we think about the CD rates being tied to treasuries and what the Fed intends on doing. I could see some downward pressure through the end of Q4, maybe another 100 basis points, plus or minus. But it's still tough to say. Like I said, we do think that even though our cost of borrowings goes up, so will our top line.

Operator

Next question will be from Mike Grondahl from Northland Capital Markets.

Michael Pochucha
Northland Capital Markets, Research Division

This is Mike Pochucha on for Mike Grondahl. Maybe first, just on rec versus home improvement, do you kind of see the rest of the year where it's maybe a little stronger for home improvement for originations and then just a little softer for rec on comparables?

Anthony N. Cutrone
Executive VP & CFO

Yes, I think that's fair. It's -- we're actually happy with the origination volume we saw in home improvement -- in rec. We're happy with both. But with rec, we're happy with the origination volume we saw in Q1, albeit down from last year. Last year was an anomaly. Coming out of COVID '21 and '22, we just saw no seasonality in originations and significant volume. That's come back to normal levels. And we -- starting in Q3, Q4 of last year, we started to see the seasonality. So volume will be down in terms of originations compared to last year. But we still think at the end of the year, we're at a bigger book than we were at the end of last year.

And home improvement, yes, there's plenty of growth there. There's a lot of opportunity. That's a much bigger pool in terms of the overall home improvement space. So we've used the opportunity to step up interest rates on new originations as well as get a better credit.

Michael Pochucha
Northland Capital Markets, Research Division

Got it. And then on Medallion collections, anything more to call out? There was a lot of that towards the end of the quarter. Or you can see more of that rolling into the second quarter and the rest of the year? Or I know it's tough to forecast but...

Anthony N. Cutrone
Executive VP & CFO

Yes, it's definitely -- we've always said it's tough to forecast, and we weren't anticipating collections at this level in Q1. A lot of this could have been stuff that maybe came in later in the year. We were able to get larger settlements in the beginning of the year. The $13.2 million, it's great. That's definitely not a run rate.

As far as where it ended up on the financials, as Andrew mentioned in his remarks a little while ago, we earned $0.28 specifically to recoveries. That's $8.7 million that showed up on the income statement, and the best -- and the rest reduced our exposure.

Michael Pochucha
Northland Capital Markets, Research Division

And does that fall straight through the provision line when we're thinking about that?

Anthony N. Cutrone
Executive VP & CFO

Most of it -- I think $7.1 million is in the provision. It's a benefit provision, and the rest is in other income. It's gain on the disposition of assets.

Michael Pochucha
Northland Capital Markets, Research Division

Got it. And maybe just on expense base, is this kind of a good quarter to kind of think about for the rest of the year? Is there anything to call out, higher or lower there?

Anthony N. Cutrone
Executive VP & CFO

Not really. Our professional fees were higher than Q4, but lower than Q1 of last year. I think in Q4, we had some benefits we realized with nonlegal professional costs. So I think Q1 is probably normalized. We had a small amount of legal costs related to the SEC action. But that -- right now, that's still quite low.

Operator

[Operator Instructions] Next question will be from Christopher Nolan, Ladenburg Thalmann.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

The net charge-offs in the quarter, was that including the recovery of $13.2 million on the Medallion loans?

Anthony N. Cutrone
Executive VP & CFO

Chris, yes. So the $4 million provision included a $7.1 million benefit related to the Medallion collections.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

And do you guys have a run rate in terms of when you expect all the Medallion loan recoveries will probably end? Do you...

Anthony N. Cutrone
Executive VP & CFO

We don't -- we definitely think there's a lot more to be collected. It's not going to happen in the next 2 or 3 quarters. It's 1, 2, 3 years out.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

And do you have a target reserve ratio for year-end?

Anthony N. Cutrone
Executive VP & CFO

We think where we ended up at the end of Q1 is -- should be, and I'll put a caveat on that, should be where we are at the end of the year. That being said, with our adoption of CECL in January 1, any fluctuations in charge-offs that we experience from what we anticipate is going to cause some -- could cause a significant change in our reserve rates.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Great. And has the reserve -- excuse me, has the capital ratios at the bank increased at all?

Anthony N. Cutrone
Executive VP & CFO

The Tier 1 at the end of the year -- at the end of 2022 was $16.2 million -- sorry, 16.2%, and it ended at 16.4% at the end of March. And most of those recoveries on the Medallions -- the benefits that ran through the income statement, were at Medallion Bank. And that helped bolster the Tier 1 level.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

So is the plan just to basically keep the Tier 1 ratio sort of in the 16% range and just grow the balance sheet?

Anthony N. Cutrone
Executive VP & CFO

That's where we're at now. We've got to maintain 15%. So we don't want to get too close to that. But that's the plan as of now.

Operator

This concludes our question-and-answer session. I'll turn the call back over to Mr. Andrew Murstein for closing remarks. Please go ahead.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you. We appreciate you taking the time to join us today. We're very pleased with our performance so far this year and look forward to our next update. As always, if you need anything, please reach out to our Investor Relations team at (212) 328-2176. Thank you, and have a great day.

Operator
That was today's presentation. Thank you for attending. You may now disconnect.

Presentation

Operator

Greetings, and welcome to the Medallion Financial Second Quarter 2023 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Ken Cooper, Investor Relations for Medallion Financial. Thank you. You may begin.

Ken Cooper

Thank you, and good morning, everyone. Welcome to Medallion Financial Corp.'s second quarter earnings call.

Joining me today are Andrew Murstein, President and Chief Operating Officer; and Anthony Cutrone, Chief Financial Officer.

Certain statements made during the call today constitute forward-looking statements made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Those risks and uncertainties are described in our earnings press release issued yesterday and in our filings with the SEC.

The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update these forward-looking statements.

In addition to our earnings press release, you can find our second quarter supplement presentation on our website by visiting medallion.com and clicking Investor Relations. The presentation is near the top of the page.

With that, I'll turn it over to Andrew Murstein, President.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you, Ken. Good morning, everyone. Medallion Financial had a great second quarter with continued growth and profitability. For the second quarter, we generated $14.2 million of net income and $0.62 of earnings per share. Our return on equity was 18.2% and our return on assets was 2.6%. All remain strong and reflect the healthy state of our business.

The main driver of our bottom line continues to be our consumer lending businesses, which had another quarter of significant origination volumes. Our consistent performance validates our strategy of using a national base of 3,000 dealers and 1,000 contractors to source loans. We then deliver premium customer service to make it easy to do business with us.

This customer service reinforces loyalty to Medallion, which is important in times like we are in.

Further, by maintaining rigorous underwriting standards, we are targeting borrowers that have a high propensity to timely pay their loans. This has helped us keep our returns high and our losses low.

Our performance was also driven by our second straight quarter of cash collections over $10 million on taxi medallion assets. Our entire team is doing a wonderful job on this. However, I again stress that payment patterns are not expected to be linear. We expect quarters to be low, high and in between. We have a talented team led by Alvin Murstein, who is possibly one of, if not the most, knowledgeable authority on the taxi medallion industry in the U.S.

As I mentioned, our consumer lending businesses surged in the second quarter and had more strength than we have seen over the past several quarters. We believe that this is in part due to resilient U.S. consumers who continue to invest in home remodel projects, boats and RVs. We also believe some industry players have scaled back on this business or even left it all together. When this happens, it creates an opportunity for us to pick up market share. And of course, it's related to our teams within our consumer segments who are doing an exceptional job day in and day out. This also happened in 2008 and we, of course, came out at that time larger and stronger.

When we have lower-than-usual loan provisions in 2021 and 2022, we said that they would bounce back to a more normalized level. And they are doing just that. Similarly, our origination levels are higher than normal.

With the growth of our loan portfolio, we increased net interest income 20% year-over-year to $46.7 million. This has been fueled by our ability to raise our own rates, combined with the growth of our loan portfolio. We will continue to maintain flexibility in the pricing of new originations to counteract further increases in borrowing rates.

Home improvement continues to be our fastest-growing segment. While the growth continues to put pressure on our total company net interest margin, our net interest income continues to expand.

Our rec business continues to deliver our highest average interest rates of 14.62%. It is also our most profitable segment and our biggest now at $1.3 billion of assets.

Finally, our commercial business stayed flat compared to the first quarter in which we originated $5 million of loans and had roughly that same amount of payoff activity on loans.

Commercial earned just over $1 million for the quarter again and has a solid pipeline that should lead to increased originations in the future.

With that, I will now turn the call over to Anthony, who will provide some additional insight into our quarter.

Anthony N. Cutrone
Executive VP & CFO

Thank you, Andrew. Good morning, everyone. For the quarter, net interest income grew 20% to $47 million from the prior year. The driver of this being growth in our loan portfolio in addition to increasingly higher interest rates on our loans, which have helped to counter the rising cost of funds we continued to experience.

Our net interest margin on gross loans was 8.48% for the quarter as compared to 8.78% in the prior year quarter. The compression in net interest margin has been expected for some time now. And although we experienced a 30 basis point reduction from the prior year, when compared to the first quarter, our margin increased 6 basis points.

We have seen for a few quarters the weighted average coupon on our loans increase. This increase is reflected in our yield, and although our cost of funds continues to track higher, we've been able to pass along a portion of that increase.

Specific to originations, we are currently writing at rates of 10% to 11% on home improvement loans and around 16% on recreation loans.

Our provision for credit loss was $8.5 million for the quarter compared to $7.8 million in the prior year quarter. The increased provision is a result of the continued normalization of losses in our consumer portfolio as well as the provision taken in connection with growing all of our loan portfolios, both of which were offset by $5.3 million of recoveries on taxi medallion loans.

Our operating expenses of $19 million increased 1% from the prior year and reflect increases in employee-related costs associated with a growing head count at our operating subsidiaries, Medallion Bank and Medallion Capital. This increase is offset by lower legal and professional fees.

For the quarter, net income attributable to our shareholders was $14.2 million, and our diluted earnings per share was $0.62.
That covers our second quarter financial results. Andrew and I are now happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mike Grondahl with Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Hey, the first question, Andrew, you talked a little bit about competition in the consumer space sort of scaling back, pulling back similar to 2008. I don't know, could you just provide maybe some more details there about the competitive environment? I mean, I think RV sales industry-wide were down about 40%, but you guys grew consumer loans nicely. So just trying to understand that a little bit more.

Andrew M. Murstein
President, COO & Non-Independent Director

Sure. I think that's really the story of the quarter is that there is less competition out there, and we continue to take and grow our market share. We did that even though we tightened credit and raised rates. We just still had very strong loan demand.

And Mike, as you mentioned, it was exactly the same scenario in 2008, '09 or so. It's just that we've been in this business for so long. The management team has been doing it for 30 years or so. They really have a loyal following. Other lenders come in and leave. The dealers know we're in it for the long haul and continue to send us a lot of their business.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it, got it. And then one for Anthony. Anthony, the provision was $8.5 million in the quarter. And you said -- I think you said that was offset or there was a $5.3 million recovery tied to taxis that offset that. So do I think of kind of the gross provision as like $13.8 million or could you just clarify there?

Anthony N. Cutrone
Executive VP & CFO

Yes. So the $5.3 million, that's the benefit we got. We recognized on these settlements that have led to the cash that's come in the door these past couple of quarters. But yes, if you were looking for a provision, excluding the medallion segment, you'd add back that $5.3 million.

Michael John Grondahl
Northland Capital Markets, Research Division

Okay, okay. And then, hey, lastly, could you talk about -- I didn't see in the press release sort of net charge-offs kind of by vertical in sort of dollars and percent in 2Q '23 as compared to 2Q '22?

Anthony N. Cutrone
Executive VP & CFO

Sure. So we're seeing -- if we exclude the medallion piece, we're seeing charge-offs. They've ticked up the past couple of quarters. Net charge-offs were $3.8 million, and that included $4.9 million of a net benefit from the medallion space. So if you back that out, we had net charge-offs of $5.9 million on the rec side, home improvement was $1.9 million and commercial was $900,000.

In terms of a percentage on the -- weighted average percentage on the portfolio, we're probably around 187 basis points on the rec and 112 or so on home improvement, current quarter.

Operator

Our next question comes from the line of Matt Howlett with B. Riley Securities.

Michael Schafer
B. Riley Securities, Inc., Research Division

This is Michael on for Matt. I just want to lead off with the congrats on the great quarter. So noticed that average interest rates ticked up slightly across the board. Could you speak to your 2Q pricing strategy and if that's changed at all to date.

Anthony N. Cutrone
Executive VP & CFO

Sure. Yes. So for a number of quarters now, with new originations, we've been increasing the rate we charge on these new loans. This started probably about a year ago as the Fed went down the path of raising interest rates, we took -- we didn't jump right in with increasing our rates, but we did eventually do that, pull the trigger about a year ago.

Given the size of our book of business, it's slow for that rate increase to trickle through in terms of the yield. Essentially, all of our loans are fixed rate. So the new ones come on at a higher rate. The old ones that are amortizing off are at a lower rate. So it's slow to -- for that yield to come up.

But we have for 2 or 3 quarters now, 4 quarters, actually seen modest increases in the weighted average coupon of these loans. And I think that's what's flowing through.

This is something that we've been saying for a couple of quarters now is that even with interest rates and our cost of borrowing is increasing, we expected there to be compression in our NIM. But at the same time, we thought we'd be able to grow net interest income because our top line is growing not as fast as our -- as the cost of funds, but pretty close to it.

Michael Schafer
B. Riley Securities, Inc., Research Division

Got it. Okay. And so for -- you spoke to yield a little bit, they're slower to trickle in. So for home improvement specifically, we saw that didn't pick up in the second quarter. Do you have any commentary there in particular?

Anthony N. Cutrone
Executive VP & CFO

Yes. In terms of home improvement, our average coupon is about 9.21%. At the end of the quarter, it was 8.83%. So there is some improvement. We're writing new paper at just below 11% on new originations. So again, it's a function of the size of the portfolio. And as we write those new loans at higher rates, slowly it lifts up the yield and the average year rate.

Michael Schafer
B. Riley Securities, Inc., Research Division

Got it. Makes sense. So second here, for overall portfolio growth, another great point for the quarter, could you speak kind of quarter-to-date any guidance on where that is?

Anthony N. Cutrone
Executive VP & CFO

I think -- what we saw in the first half of the year, particularly the second quarter, is that return to seasonality. So originations were very strong in Q2, which is, if we go back to a pre-COVID era, that's typically what we saw. And then they come in some.

We grew a lot in Q2. We don't anticipate growing at that level in Q3. But we've taken steps to moderate our growth. We've increased rates, we'll continue to do that. And we've tightened credit.

But I think Q3 historically is one of those ones where things start to slow down and then it bumps up a little bit and then comes down. So it's that seasonality that we haven't experienced in a couple of years. We think we're back there.

Michael Schafer
B. Riley Securities, Inc., Research Division

Sure. Okay. And last question here. So as far as current capital levels go, could you give any updates there as well as just some commentary on your general market outlook.

Anthony N. Cutrone
Executive VP & CFO

Yes. So I think for Medallion Bank, we ended the quarter with Tier 1 just over 16%. We declared a dividend of $0.08 a share. I think we experienced a lot of growth, and in order to maintain that growth, we need to retain a fair amount of our capital. So to the extent that we have earnings like we do, we think our best outlook and the best thing we could do for the future is to reinvest in our businesses. And that's where we're taking a significant portion of our earnings, putting it back in the business, retaining it there and growing our balance sheet.

Operator

Our next question comes from the line of Christopher Nolan with Ladenburg Thalmann.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Anthony, on the comment you just made on retaining capital to grow the balance sheet, we should imply from that, that dividend increase is not in the cards?

Anthony N. Cutrone
Executive VP & CFO

I wouldn't say it's -- I'm not going to comment. These are actions that the Board has to take. When we reestablished the dividend and put it back just over a year ago, the intent is to pay a good dividend that over time can increase. Given the growth that we experienced in Q2, we didn't think it prudent to increase that dividend. As we see how the next couple of quarters unfold, that will determine the dividend policy that's taken.

Andrew M. Murstein
President, COO & Non-Independent Director

I'd say also, Chris, dividends and buybacks are very important to us, both of those things. So the hope is to do both of them. As Anthony correctly pointed out, it depends really upon the loan demand. If more of our competitors leave the market, we may want to continue to grow market share. But if the seasonality comes back into play and we don't have the growth as we expect we won't have in the first half of this year, then we start focusing on those 2 things, on the buybacks and the dividends.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

And then is it correct to say that the recreational segment was the driver of the incremental loan growth in the quarter?

Anthony N. Cutrone
Executive VP & CFO

Yes. Yes, that's -- I mean, that's our crown jewel. That's where a vast amount of our income is generated. And that's where significant volumes of originations occur.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Great. Should we read anything in terms of lower professional fee expenses?

Anthony N. Cutrone
Executive VP & CFO

No. I think for 3 quarters now, we've experienced what we see as normalized professional and legal fees. And that's a good thing. They'll fluctuate from time to time going forward. But for right now, that's -- I think that's the current run rate.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Great. And last question. The taxi medallion recoveries, you guys had $10.6 million in medallion repays, but only $5.3 million in recoveries. I thought that all the medallion loans were nonaccruals, so any repayment you get were treated as a recovery.

Anthony N. Cutrone
Executive VP & CFO

Yes. So as the recoveries come in, as the cash comes in, they reduce the asset. We don't recognize any income until the asset is reduced to 0, at which point we start recovering. So we had the $5.3 million that was in the provision. There was another $1 million or so that we recognized on the disposition of actual foreclosed medallions. And then the difference between what we collected in those 2 numbers, that reduced our total exposure.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Okay. So part of it is already reserved.

Anthony N. Cutrone
Executive VP & CFO

Yes.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Okay. And then I guess, final question. You guys are sort of in a -- it looks like the competitive environment is improving and the operating -- what's your thinking about in terms of your reserve ratio outlook? And I'm trying to get a sense as to are you guys in a mode to build reserves or keep it steady? Or how should we look at that?

Anthony N. Cutrone
Executive VP & CFO

We think we've got fairly healthy reserves right now. On the rec side, we're over 400 basis points. And on the home improvement side, we're over 200 basis points. That's nearly double in both of those what our charge-off experience has been this past quarter.

So what's going to determine this long term is what the economy does. My crystal ball isn't working very well right now, and it hasn't been for a couple of years. But if the economy takes a turn and the consumer -- particularly our consumers start to feel pressure, I think those rates will tick up. If we continue at this level, I would expect them to stay the same.

Operator

Our next question comes from the line of Mike Grondahl with Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Just a follow-up on sort of overall loan growth. I think what you guys are saying is, hey, 2Q was really strong. Seasonality historically kicked in. So it was like historic trends. Are you sort of saying, hey, we expect some natural moderation in the second half?

And then secondly, where are sort of current CD prices and what's sort of the overall outlook for the net interest margin?

Andrew M. Murstein
President, COO & Non-Independent Director

So you'd expect growth to slow. I mean we've been growing 20% on the RV and marine and 40% on home improvement. Those are very impressive numbers. It won't continue for forever. Frankly, about a year ago, we thought it would slow and it didn't. So it's hard to predict when our competitors leave the market as they've been doing. We just are pleasantly surprised, and it really is a boost to our earnings and our growth. So we think it will return to seasonality.

But again, you don't really know. This business continues to do tremendously well for us. And the hope is we continue to grow it at those rates, but we really plan for typical growth, which is less than that.

In terms of the CD rates, Anthony could address.

Anthony N. Cutrone
Executive VP & CFO

Yes. And the only thing I'll just add to what Andrew said is that even though we're seeing some competitors leave the market, we've taken -- we haven't just picked up all of that excess. We've stepped up credit. Our average FICO has gone up again. And we've increased the rates that we're charging on new originations.

So we see it as a win. And I don't want to speak about what Andrew already said, but this is similar to what we experienced a number of years back during the Great Recession.

As far as CD rates, we're seeing they've come down some in the past month or so. Three-year CDs we're seeing at about 4.85% all in and 5-year new issuances are around 4.60%. Our average deposit rate is 2.70%. I mean this isn't a shock to anyone. We've been saying this all along, we expect our cost of funds to continue to increase. We were seeing 5-year CDs north of 5.25% just a few months ago. So they have come down some. And I guess we'll see what the Fed decides to do in the next couple of meetings.

But again, we've passed along a significant amount of that. So although our NIM has compressed year-over-year and we do expect a little bit more compression, we do think that our top line growth is enough to make sure that our net interest income continues to grow.

Michael John Grondahl
Northland Capital Markets, Research Division

Yes, you've done it. You've done it so far. Hey, 2 last quick questions. Was there any stock buyback in the quarter?

And then secondly, just in the financial statements, I think there's roughly $68 million of short-term debt now. Can you just remind us what that is and sort of how you're dealing with that?

Anthony N. Cutrone
Executive VP & CFO

Sure. So first question, no, we didn't buy back any stock in the quarter.

Second question on short-term debt, there's pretty much 3 components there, the largest one being $36 million of private notes that come due in March 2024. So we'll -- we've got a couple of options there. We've got -- we've had discussions with the current holders and we're speaking with new holders. The intent is to roll that credit, whether it's with the existing lenders or new lenders, that will be determined. So we've got some options there.

In terms of pricing, that $36 million has a coupon of 8 1/4%. It's probably 50 to 75 basis points below where we think it would reprice today. So that's something we'll be doing and working through in the next quarter or 2.

The other large piece in that, we had $28 million of borrowings with the Federal Reserve through the Fed window at Medallion Bank. It just so happened that it landed at quarter end and it was just a mechanism to increase cash on hand and liquidity. I think we had it outstanding for 3 or 4 days.

Earlier in the quarter, we had taken a bunch of our investment securities and taken steps to pledge them with the Fed. So that borrowing you saw at the end of the quarter 1 increased liquidity just for a short amount of time.

And two, we wanted to test it, make sure that we operationally understood how we worked and everything -- and how the mechanics work. Those borrowings have since been replaced with CDs.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it, got it.

Anthony N. Cutrone
Executive VP & CFO

And then there's a small piece of SBA debentures and borrowings, that's just ordinary course. Those are 10-year debentures. Upon maturity, we usually get another commitment and take down another debenture to take off -- to repay the maturing ones.

Operator

Thank you. Ladies and gentlemen, this concludes our time allowed for questions. I'll turn the floor back to Mr. Murstein for any final comments.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you again for joining us on our earnings call. As always, if you have any questions, please feel free to contact our Investor Relations team. The contact info is on the last page of our earnings supplement as well as the IR section of our website. Thank you again, and have a great rest of your day.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.

Presentation

Operator

Ladies and gentlemen, good morning, and welcome to the Medallion Financial Third Quarter 2023 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host Ken Cooper. Please go ahead.

Ken Cooper

Thank you, and good morning, everyone. Welcome to Medallion Financial Corp's Third Quarter Earnings Call. Joining me today are Andrew Murstein, President and Chief Operating Officer; and Anthony Cutrone, Chief Financial Officer.

Certain statements made during the call today constitute forward-looking statements made pursuant to and within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Those risks and uncertainties are described in our earnings press release issued yesterday and in our filings with the SEC. The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update these forward-looking statements.

In addition to our earnings press release, you can find our third quarter supplement presentation on our website by visiting medallion.com and clicking Investor Relations. The presentation is near the top of the page. With that, I'll turn it over to Andrew Murstein, President.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you, Ken. Good morning, everyone. Medallion Financial had a strong third quarter, that culminated with our best earnings for the 9 months ended September 30 in any year since our IPO over 27 years ago.

In the third quarter, we generated $11.2 million of net income and $0.48 of earnings per share. Year-to-date, we are at $40.8 million of net income and $1.77 of earnings per share. These results have again been driven by higher-than-normal originations in our consumer lending solid results from our commercial lending, continued success in cash collections from our taxi medallion loans and a successful effort to leverage our operating costs.

We have been clear for some time now that our strategy is to grow net interest income by offsetting rising cost to borrow with continued growth in loan originations. We have done that for another quarter, even as origination activity has started to normalize back to historical levels. As we look to the future, we will continue to take proactive steps to raise our credit standards and increased pricing.

With total assets at over $2.5 billion, we anticipate loan growth to moderate from the levels we have seen over the past 2 years, which should enhance earnings with reduced credit allowances needed at origination. This provides more flexibility and options for us to consider around capital allocation, such as the 25% increase in the dividend of Board authorized starting next month, which enhances shareholder returns.

Moving to the update for each of our segments. Our Consumer Lending business had another quarter of heightened activity of originations. We believe this robust origination activity is due to our target customer, still being active in purchasing towable RVs, small boats and single project home improvements. These all have active markets today as compared to the higher-end cruiser RVs, yachts, a multi-project or whole house remodels, which has significantly higher cost and may be more susceptible to a slowdown.

As a reminder, our average loan at origination is around a very manageable $25,000, with a prime or near prime borrower more focused on the payment levels than the rates. In addition, we continue to see some industry players scale back or exit these business lines, which helps us. The dealers and contractors who we work with know that we have great service levels and will be here long-term, which helps them refer business to us.

Our Commercial business originated $9 million of loans in the quarter and ended the quarter with $100 million of loans outstanding. The segment generated after-tax earnings of $2 million during the quarter, which included net after-tax gains related to equity investments of $1.6 million. Our bottom line benefit or began from another good quarter of cash collections on taxi medallion assets.

This quarter, we collected $5.7 million, which translated into $0.10 of earnings per share. Also of note, shortly after the quarter ended, we executed a structured settlement with one of our larger taxi medallion borrowers and collected an additional $9.4 million, which will result in a pretax gain of approximately $8 million in the fourth quarter. We continue to be delighted with our taxi medallion collection performance, but I again stress that payment patterns are expected to fluctuate.

Finally, as I mentioned earlier, our Board has authorized a 25% increase in our quarterly dividend from $0.08 to $0.10 per share per quarter. With that, I will now turn the call over to Anthony, who will provide some additional insight into our quarter.

Anthony N. Cutrone
Executive VP & CFO

Thank you, Andrew. Good morning, everyone. For the quarter, net interest income grew 16% to $48.8 million from the prior year, driven by increased interest rates on new originations, coupled with the loan growth we've experienced since the prior year. These 2 factors have been able to counteract the rising cost of funds we continue to experience.

Our net interest margin on gross loans was 8.35% for the quarter, as compared to 8.48% in the second quarter and 8.63% in the prior year quarter. The compression in net interest margin is related to 2 things: First, Home Improvement lending has been the fastest-growing component of our Consumer Lending business. With these fund credits having a much lower interest rate. The second is the rising cost of funds we are experiencing in tandem with the current interest rate environment.

Although we have been successful in increasing our own rates, it is not on a one-to-one basis. Specific to originations, we are currently writing at an average rate of 11.75% on Home Improvement loans, up from approximately 9% a year ago at an average rate of approximately 16.25% on Recreation loans, up from 14.75% a year ago. In addition to passing along interest rate increases, we continue to take proactive measures to tighten credit in our consumer lending.

At the end of 2018, subprime loans were 66% of the Recreation portfolio. Today, subprime loans are 38% of that portfolio. Our provision for credit loss was $14.5 million for the quarter, compared to $10 million in the prior year quarter. The increased provision is primarily a result of: one, the continued normalization of loss experience in our Consumer portfolio up from the unprecedented lows experienced during the pandemic; and two, the growth of our overall portfolio.

The provision is inclusive of a $1.8 million benefit related to recoveries on taxi medallion loans during the quarter. Operating expenses were $19.1 million during the quarter, down from $19.4 million in the prior year quarter. The drop was primarily the result of lower legal and professional fees in the current period, offset by higher salary and benefit costs and higher servicing costs associated with a larger book of loans.

For the quarter, net income attributable to our shareholders was $11.2 million and our diluted earnings per share was $0.48. Just a quick final comment on the balance sheet. On September 29, we closed a $39 million private placement of 9.25% notes, a large portion of which has been used to settle $33 million of the 8.25% notes, which mature in March 2024, with the remaining $3 million of those notes anticipated to be repaid at maturity.

It's important to note that this new issuance priced at a rate 75 basis points above prime, as compared to our previous notes issuance in 2021, which priced at 400 basis points above prime. Our ability to price the instruments at a lower spread to prime from just a few years ago speaks to our underlying business as a whole and the progress that we've made in transforming the company.
At the end of the quarter, the company had $160 million of debt at the parent company, which continues to fund the investments in our operating subsidiaries with debt -- debt being less than 50% of our equity. That covers our third quarter financial results. Andrew and I are now happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mike Grondahl with Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Two questions maybe to start off with. Could you kind of give us a sense of your margin outlook going forward? And then, Anthony, I think we typically get net charge-offs kind of by-category in dollars and percent. Could you also provide those?

Anthony N. Cutrone
Executive VP & CFO

Sure. So with regards to the margin, we still believe, as we've said for a couple of quarters that there's going to continue to be compression. But we think we bottom out at around 8% net interest margin. We still have a ways to go in terms of our cost of funds rising.

But I think what's important to note is, that we've passed along, especially in the most recent year, a large number of increased rates on new originations. So we think as we get closer to the top of the credit cycle, there'll be a little bit more compression. But then as we've increased the rates on -- and our book matures in terms of a higher average interest rate, that should help us long-term.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. Got it. So a couple of more quarters of compression until you hit about 8%. Is that the -- did I hear that right?

Anthony N. Cutrone
Executive VP & CFO

Yes, I think that's fair. And obviously, what the Fed decides to do is going to be a catalyst for a lot of things, but that's how we're seeing it. And to your other question about charge-offs for the quarter, charge-offs in Rec and Home Improvement were $9 million and $3 million. Commercial was 0, and we had $1.7 million of recoveries on taxis.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And then on your CDs, what was the average rate you're paying at the end of 3Q, kind of compared to market?

Anthony N. Cutrone
Executive VP & CFO

We're probably about 150 to 175 basis points below, what a current 3-year CD would be? So we think we creep up. And again, that goes back to what we were just talking about. We -- our cost of funds is going to increase towards that $475-ish $500 level over the next several quarters. But again, our top line is going to continue to increase as we've seen it do for the past several quarters now.

Michael John Grondahl
Northland Capital Markets, Research Division

Yes. You've done a good job of raising yield. That's for sure. And then Andy, 2 questions for you. One, how are you thinking about the $160 million of debt at the holding company, as you get these taxicab medallion collections? And then secondly, how are you thinking about 2024?

Andrew M. Murstein
President, COO & Non-Independent Director

So let me just also touch on the net interest margin. The net interest income, we expect, of course, to increase, just to be clear there. So the margin, as Anthony has been saying accurately for several quarters now, it should go down to about that 8%. But as the portfolio grows, the margins continue to shrink, but the net interest income continues to increase because of the volume of the portfolio, the originations.

The debt amount, we think is conservative at that level. We're not really leveraged too much. We've always operated, as you know, Mike, you've known us for many, many years. So for about 30 years, we were a regulated investment company, BDC, so we were limited to about 1:1 debt-to-equity. So we've always kind of operated at a low leverage ratio.

So we refinanced that debt, as you know, that was nice to put behind us. We have debt coming due in March 2024, which we refinanced as we announced on September 30. So we don't anticipate adding significant new debt, if any debt at all for the next year or so.

In terms of the outlook for 2024, I'd say, overall, we're pretty optimistic as the numbers continue to show and the results continue to show. We've had strong loan demand in RV, Marine, Home Improvement. Mezzanine continues to be very strong, too. This is probably one of the highest deal flow we've seen from that division in the 25 years that we've owned them.

So across the board, continued growth. Hopefully, more collections from the Medallion portfolio. We've done a great job collecting on a lot of loans there. We still owe about $200 million, and we'll do whatever we can to collect as much of that. You have congestion pricing hitting New York City soon. So that could be a boost for Medallion prices when they try to keep consumer cars out of the city, more people ideally will be taking taxis as well as Ubers. And we increased the dividend. So as everybody can kind of sit back and watch the growth in 2024, they'll be able to receive a $0.40 per share dividend. So overall, I'd say we're bullish on the year ahead.

Operator

Our next question comes from the line of Christopher Nolan with Ladenburg Tallman.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Andrew, did I hear you say that there was $200 million in Medallions outstanding?

Andrew M. Murstein
President, COO & Non-Independent Director

That's where we're owed, correct. As you know, they're written down to a much lower number. It's less than 1% of our assets today, but that's how much legally we're owed. The collections can come through by either for closing on the Medallions, which are worth about 150 or so now in New York City. We're carrying them, as you know, at a lower number. But all these -- and we've been saying this for many, many years, all the loans have personal guarantees attached to them. So thankfully, we're seeing a lot of settlements this year. I don't know if the borrowers are bullish on the congestion pricing plan. we're just business in general, but they're coming in and settling with us. So hopefully, that continues.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Got you. For the $9.4 million medallion recovery in the fourth quarter, why is that a gain? Shouldn't that be a recovery?

Anthony N. Cutrone
Executive VP & CFO

So yes, I know it is a recovery. It's going to be a benefit in our provision. So this -- these assets had been written down to a book value of $1.4 million. So it's the difference between the cash collected and the asset that goes away, that's the $8 million.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Okay. So that's simply just -- we could potentially have a lower loan loss provision than normal, right?

Anthony N. Cutrone
Executive VP & CFO

Right. Yes. So that $8 million should all flow through as a benefit in the loan loss provision. That's correct.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

And then where are you thinking of taking the reserve ratio?

Anthony N. Cutrone
Executive VP & CFO

Yes. So -- so currently, we're around $420 million on Rec and just about $220 million or so on Home Improvement. We think those are good numbers. So in connection with the adoption of CECL on January 1, we've got a -- we do a lot more quantitative forecasting, and we look at future expected losses. If the economy were to take a sudden downturn, which we've been expecting that -- those rates could step up. But if we continue with the pace of where we are, we think those are good numbers, and that's where the allowances should remain.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Okay. And then given a final question. Given your comments in terms of loan growth to moderate, should we expect relatively, what does moderate mean? I mean, is, what sort of growth rate you're looking?

Anthony N. Cutrone
Executive VP & CFO

Yes. So I think in the 9 months, consumer loans grew around 16%. And we've been experiencing 20% to 30% growth year-over-year in those 2 categories. And that was good.

And we intentionally did that and made those -- took the opportunity to take these recoveries and this capital, that we generated from these Medallion collections and reinvest it in the business. I think going forward, we would expect somewhere in the ballpark of 8% to 12% growth, with the ability to increase that or decrease it as necessary. I think growing at 20% is different when you've got $100 million -- $1 billion balance sheet as opposed to growing at 20% when you've got a $2.5 billion balance sheet.

Operator

Our next question comes from the line of Matt Howlett with B. Riley Securities.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Another fine quarter. And there just seems to be this disconnect between you guys are performing what the market views you at. And I want to get to that. But the first question is the -- with the moderation in loan growth, the excess capital, I mean you just raised the dividend, you have a high-class problem you have a lot of capital, you're above, I think, 15%, well above 15%. And it looks like you'll generate more capital. You got that gain coming into the third quarter. So you already got sort of $0.25 in the bank already.

My question to you is -- could you -- what do you think about in terms of excess capital, could you get more aggressive buying another platform, buying back shares? Just talk to me about what you've been running at this breakneck speed in loan growth as good as slow. It's going to free up a lot of capital, you've got great earnings. Anything we should think about plans with that capital?

Andrew M. Murstein
President, COO & Non-Independent Director

I think while we're always looking at new businesses and acquisitions, it's really not a good time to go off base and go into new lines of business. All of our businesses are doing so well. So we're going to continue to focus on them.

I'd say that we probably have a lot of good options, since we don't plan on going into new businesses. That could be buying back more stock. Last year, I think we bought about 10% of the company back in 2022. The buyback is another $20 million to go. It lets us raise the dividend as you state. We're now paying $0.40 a share. So we raised at 25%, so we can put more money into the bank if need be. If we're surprised and loan growth is stronger and we're able to really pass on a lot of the increases in prices to our borrowers and charge more. That's always a good option for us too, but it's nice to have options.

Anthony N. Cutrone
Executive VP & CFO

Yes. And I think the one thing that I'd add to that is we do have a large amount of capital, regulatory capital at the bank, but we also have a high minimum that we've got to maintain. A 15% capital maintenance ratio that, as you're aware. So -- so given the size of book that we have now, a slight deviation because of CECL, in what we need to record as an allowance, could have a meaningful impact on that ratio.

So if we need to stay at 15%, staying just above 15% at the size we are, doesn't actually -- it doesn't work for us. So we need a larger buffer to account for that variability, which we haven't yet experienced in the 9 months since we've adopted CECL.

But if the economy does take a downturn, we might. And I think that's why we want to make sure that we've got ample capital cushion, as well as to what Andrew said, increasing the dividend and providing other shareholder returns that we can.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Yes. Look, look, it's a high-class problem to have. It looks like your capital generation is only going to increase. So -- when I look at Slide 11, the charge and most of the banks have been out there saying charge-offs on their credit card or auto is going to be kind of pre-pandemic levels in by early next year. You guys are a little -- you guys are -- you guys are not quite there, but you're almost -- you're in charges. When I look at that chart, though, given the movement up in credit, the FICO, the more home improvement you have, I mean that you kind of show a 6% charge-off in 2009, but it doesn't seem like you'd ever get -- ever close to even if we go into a major recession.

Anthony N. Cutrone
Executive VP & CFO

Yes. We hope not. I think what I said earlier is important. Just in 2018, 2/3 of our Recreational portfolio was subprime. In subprime, that's the regulatory definition, 660 FICO. Today, that's 1/3. So we've drastically changed the credit quality of this portfolio over a number of years. And we hope that, that -- as well as in the past year, stepping up the rates that we're getting on new origination. So we think that all of those things are good steps and should help us undoubtedly when we hit the next downturn.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Yes. And then my final question is for both of you and especially Andy, you've been obviously running the company a long time. But what's the disconnect here, between the numbers you're putting out that 20-plus ROEs, the significant discount to book, what's the disconnect between your performance in the market? Are people just looking at prior cycles or looking at the banks? Are they not appreciating your underwriting, you're moving up in credit, all your pricing. I mean, what's -- can you just maybe just go over that for me?

Andrew M. Murstein
President, COO & Non-Independent Director

Yes, that's a tough one to answer. It's a great question, though. Years ago, you're right. We've been at this a long time in the late '90s, I think we were making $1 a share. The stock was at [30%]. We're trading at 30x earnings. Now we're, as you point out in your note this morning, Matt, I don't know, 3.5x earnings, kind of shockingly low.

So I really hope we just can get in front of more buyers, more institutional buyers. It doesn't take much to move the needle if we can get some good institutional support in the stock and a large volume of stock being bought that will surely drive up the price. And, we're doing more conferences, getting more eyeballs, getting more phone calls these days. So I just think if we continue to produce, it's going to be hard for the market to -- nor us for much longer.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Yes. Look, the taxi medallion is now a tailwind for you, given you already had $8 million in pretax again in October -- was that -- did I read that correctly?

Andrew M. Murstein
President, COO & Non-Independent Director

Yes, exactly. Yes, that's been icing on the cake for us to last, or pretty big cake, I guess, because we're collecting a lot of money there. So we continue to do so, I hope. Again, the business is picking up, the Medallion business. It bottomed down at about $79,000 a Medallion. It's been picking up ever since the last few years.

Anthony N. Cutrone
Executive VP & CFO

Yes. And I would just add that this is consistent what we're experiencing in the Medallion space right now. It's consistent with what Andrew and management here has been saying all along. If you go back a number of years, when we were in the height of the issues that the taxi medallion space was encountering, we always knew and we were transparent about it, that eventually, we get to a point where the prices aren't going to go down any further. And at that point, then we would benefit, as we had already taken the pain. So I think that's what we've experienced not just the past 9 months, but also last year as well.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Well, it just looks like there's significant off-balance sheet value of those taxis. It's obviously a huge tailwind to your earnings going forward on top of really great performance. And hopefully, they'll see people will see the performance, versus what we're seeing from the banks, what the problems they're experiencing and some of your performance. So congratulations.

Operator

Thank you. As there are no further questions, I would now hand the conference over to Andrew Murstein, President for any closing comments.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you again for joining us this morning. Our company is doing well, and we have a lot to be proud of. We're working hard and seeing great results that position us well to continue to deliver shareholder value. As always, if you have any questions, please feel free to contact our Investor Relations team. The contact information is on the last page of our earnings supplement as well as the IR section of our website. Thanks again, and have a great rest of your day.

Operator

Thank you. The conference of Medallion Financial has now concluded. Thank you for your participation. You may now disconnect your lines.

Presentation

Operator

Good morning, and welcome to the Medallion Financial Corporation Fourth Quarter and Full Year 2023 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Ken Cooper of Investor Relations. Please go ahead.

Ken Cooper

Thank you, and good morning, everyone. Welcome to Medallion Financial Corp.'s Fourth Quarter and Full Year Earnings Call. Joining me today are Andrew Murstein, President and Chief Operating Officer; and Anthony Cutrone, Executive Vice President and Chief Financial Officer.

Certain statements made during the call today constitute forward-looking statements made pursuant to and within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements.

Those risks and uncertainties are described in our earnings press release issued yesterday and in our filings with the SEC. The forward-looking statements made today are as of the date of this call, and we do not undertake any obligation to update these forward-looking statements. In addition to our earnings press release, you can find our fourth quarter supplement presentation on our website by visiting medallion.com and clicking Investor Relations. The presentation is near the top of the page.

With that, I'll turn it over to Andrew Murstein, President.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you, Ken. Good morning, everyone. With the tremendous team effort throughout our entire organization, Medallion Financial had an exceptional year with total earnings and earnings per share, the highest in our history. We grew loans within our largest and most established business, the Recreational Lending segment by 13% to $1.3 billion. We did this while increasing the average interest rate on the portfolio, which was 51 basis points higher at the end of the year, compared to last year and helped to cover some of the cost of funds increases we saw this year.

We grew this segment while maintaining tighter credit standards and a sharp focus on the type of assets we lend against which are generally smaller dollar assets, such as towable RVs and small boats. These assets have not had the volatility that catches the headlines like large cruise or RVs and larger scale boats and yachts. The average loan size in our portfolio stayed roughly at just over $19,000. Our Home Improvement segment continued to be the fastest-growing part of our business. As expected, the growth rate slowed in 2023 as we were another year removed from the unprecedented spike in pandemic-driven home remodel activity. However, with growth of 21% for this segment, there continues to be a steady flow of projects, especially for the smaller roofing windows or swimming pool projects that we are known for.

Like our Recreational segment, we maintained tighter credit standards and a consistent average loan size in our portfolio of approximately $20,000. Nearly this entire segment is made up of prime customers with an average FICO score of over 760. Our Commercial Lending segment also had a very strong year. We grew the loan portfolio of 24% to $115 million, with our average interest rate up 64 basis points to 12.87%. With the range of typical loan size generally around $3 million to $6 million, our goal is to continue to grow this segment prudently over time. The segment generated after-tax earnings of approximately $6.8 million during the year.

Finally, our Taxi Medallion segment collected $45 million of cash during the year $16.2 million of this coming in the fourth quarter. The majority of the cash generated from Taxi Medallion collections was a Medallion Bank and was reinvested into Consumer Lending businesses. We continue to mention that these settlements are unpredictable, and we expect our collection activity to decrease in 2024. One item to note, as a reminder, we adopted CECL at the beginning of the year, which now requires a larger allowance for credit loss to be booked upfront when loans are originated. This increased our provision this year. In addition, our current loss rates are more closely aligned with our historical trends and are consistent with what we have been indicating they would be as we come out of the low credit loss environment experienced during and after the pandemic.

Even with the adoption of CECL and normalization of our loss rates, our strong execution across our entire company led to $0.60 of diluted earnings per share in the quarter and $2.37 for the year, which was an all-time high for us. Our strategy continues to be growing net interest income. We are doing this with smart loan growth and by offsetting elevated cost of funds with our own rate increases where possible. We expect that as we proceed through 2024, we will maintain our focus on high credit standards and using pricing to our advantage. We anticipate loan growth to continue to moderate from the levels we saw in 2022 and for us to maintain a conservative approach on credit and growth. Finally, during the fourth quarter, our Board authorized a 25% increase in our quarterly dividend from $0.08 to $0.10 per share, which began with our last declared dividend. We feel great about what we have accomplished over the past 3 years and how we are positioned for the future success.

With that, I will now turn the call over to Anthony, who will provide some additional insight into our quarter.

Anthony N. Cutrone
Executive VP & CFO

Thank you, Andrew. Good morning, everyone. For the quarter, net interest income grew 12% to $49 million from the prior year, driven by increased interest rates on new loan originations and the growth in our loan portfolio during the past 12 months. For the year, net interest income increased 17% to $188.1 million, our ability to increase our rates on new originations and our overall loan growth have enabled us to counteract some of the rising cost of funds we experienced during the year.

Our net interest margin on gross loans was 8.20% for the quarter and 8.38% for the year compared to 8.59% and 8.73% in the prior year quarter and year. We've spoken about the compression in our NIM for some time now, and it continues to trend as expected. Rising interest rates on our brokered CDs have increased our borrowing costs over the prior year. However, we've taken the opportunity to pass along a portion of those rising costs in our pricing on new originations.

Specific to originations. During the year, we wrote home improvement loans at an average rate of 11.02%, up from approximately 8.75% in 2022 and wrote recreation loans at an average rate of 16.16% up from approximately 14.25% in 2022. At the end of the year, we were writing home improvement loans at an average rate of 11.65% and recreation loans at an average rate of 16.14%. As of the end of the year, our average coupon on recreation loans were up 51 basis points to 14.79% from a year ago. And on home improvement loans were up 86 basis points to 9.51%. In addition to passing a long interest rate increases, we have continued with our tightened credit criteria. Nonprime loans were 38% of the recreation portfolio and continue to be only 1% of the home improvement portfolio at the end of the year.

Put this into some comparative context regarding how we've tightened credit over the past few years, at the end of 2019, nonprime loans were 61% of the recreation portfolio. Our provision for credit loss was $10.8 million for the quarter compared to $9.0 million in the prior year quarter. For the year, the provision for credit loss was $37.8 million and $30.1 million in 2022.

The provision included a net benefit of $12.1 million in the current quarter and the net benefit of $26.3 million for the full year related to taxi medallion loan recoveries compared to benefits of $1.6 million and $6.2 million in the prior year periods. Excluding taxi medallion-related recoveries, the increased provision is a result of the continued migration of loss experience to levels more comparable with pre-pandemic historical norms. The growth penalty we incur by growing our portfolio as well as the variability in our provisioning as a result of the adoption of CECL this year.

On a full year basis, we incurred approximately $8.5 million of additional provisions connected to the growth in our consumer loan portfolio and approximately $3.4 million of additional provisions associated with the higher allowance coverage rates tied to CECL, a majority of which were incurred in the fourth quarter. At the end of the year, our allowance for credit losses as a percentage of loans were 4.31% for recreation loans and 2.76% for home improvement loans, up from 3.55% and 1.81% a year ago and compared to 4.39% and 2.05% at the beginning of the year post our adoption of CECL.

Operating expenses were $19.1 million during the quarter, which were in line sequentially from the third quarter. For the year, operating expenses were $75.6 million compared to $72.1 million a year ago. The growth is mostly related to scaling our lending operations, offset by lower legal and professional costs. For the quarter, net income attributable to our shareholders was $14.3 million or $0.60 per diluted share. For the year, net income attributable to our shareholders was $55.1 million or $2.37 per diluted share. That covers our fourth quarter and full year financial results.
Andrew and I are now happy to take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Christopher Nolan from Ladenburg Thalmann.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Anthony, what do you think the Medallion recoveries contributed to EPS in the quarter?

Anthony N. Cutrone
Executive VP & CFO

I think as we put in the press release, the recoveries were I think about $0.33 a share based upon what we brought in and a large portion of that was one specific large relationship that came in, in October. We've spoken about it last quarter when we're going over Q3 and a few other not as large but significant items.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Second question is the reserve allowance. Where do you think it goes as a percentage of loans going forward? Should we see it continues to step up through 2024?

Anthony N. Cutrone
Executive VP & CFO

I think when we look year-over-year, we adopted CECL this year. And with that adoption, we were up 21% on the rec allowance and over 50% on home improvement. It's -- our CECL model is a function of historical losses, we try and project that out as to expected losses over the life of the entire portfolio. And when we take into account various economic circumstances. So I think what we saw is that provisions stepped up and our allowance coverage stepped up in Q4. It was actually something we were expecting to see throughout the entire year. That didn't happen for the first 9 months, and we saw it step up in Q4.

Some of it has to do with the seasonality of our portfolio. Charge-offs are typically higher in December, January and then settle back down towards the end of Q1 as the weather starts getting nicer, I think it's going to be a function of the economy. We get a nice soft landing like some are suggesting. I think we should be okay. If things are a little bit bumpier, we might see a little bit higher provisioning.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Okay. And then I guess final question is, given the regional banks are sort of -- everyone is waiting for the shoe to drop on commercial real estate. Do you anticipate that FDIC could require a higher capital ratio for the bank?

Anthony N. Cutrone
Executive VP & CFO

We've got a pretty high capital ratio. So I don't think it would be specific to us. I mean we've got a capital maintenance agreement where our Tier 1 leverage ratio is 15%. We're north of 16% now. I would imagine if there was something to come out, it wouldn't be specific to our institution, it will be across the Board. I mean I think that we'd probably be comfortable where we are now.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Great. And when do we expect to -- please, go ahead.

Andrew M. Murstein
President, COO & Non-Independent Director

Chris, I was going to say, I confirm that, I mean ours is extremely high, as you know well capitalized. I think it's about 6%, and we're at 15% or so. So -- and today, as Anthony said, we're above 16%. So the commercial real estate issues of others, I think, could have a positive effect in that several of them could be leaving some of our business lines. We've stuck to our knitting. We really focus on what we do best and have not strayed. And in times like this, banks that have issues with the commercial portfolios and real estate tend to get out of home improvement, RV and marine lending and that's where historically we've picked up market share.

Christopher Whitbread Patrick Nolan
Ladenburg Thalmann & Co. Inc., Research Division

Great. And final question, when should we expect the K to be released?

Anthony N. Cutrone
Executive VP & CFO

In probably another 1.5 weeks.

Operator

Our next question comes from Mike Grondahl from Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Can you talk a little bit about kind of your origination outlook and how that might translate into sort of growth in the various loan books?

Anthony N. Cutrone
Executive VP & CFO

Sure. I think it's a good question, Mike, and it's something that we think about on a regular basis. Coming out of the pandemic, 2021, 2022, we saw a record growth and even 2023 was larger than, I think, a traditional year. I think what we're targeting long term is annual growth, plus or minus 10% over the long term. I think 2024 will probably be in the high single digits. A portion of that is, one, there's still a lot of uncertainty with the economy. How does that affect demand? We'll see.

And the other is that we've taken a pretty strong stance on credit. We've stepped up our criteria. And we've never been ones to chase volume. Even though we've grown so much, we're not going to chase originations. But I think we're just looking at 2024, high single digits, somewhere in that 6% to 9% range. That's probably where we end up across the Board.

Michael John Grondahl
Northland Capital Markets, Research Division

Okay. And was there a onetime gain related to equity investments or any other noise to call out with the $0.60 EPS other than the taxicab collection.

Anthony N. Cutrone
Executive VP & CFO

We did have some equity gains, and we don't view them as onetime. Essentially, all of our equity portfolio, it's about $11 million at the end of the year. It's tied to our Mezzanine Lending business that's operated out of Medallion Capital. So when we make an investment there, up to 10% of the investment goes into some sort of equity security there. So we've got a $100-plus million book of loans and then we've got $10 million or $11 million of equity securities. We did have a net gains of about $3 million in the quarter. But again, these are -- these aren't onetime items. We've had those in the past and then we'll have them in future.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. It's tied to that book. It's tied to the commercial book.

Anthony N. Cutrone
Executive VP & CFO

Correct.

Andrew M. Murstein
President, COO & Non-Independent Director

Yes. And for Anthony's point, Mike, as you know, we bought that company in 1998. So we've got 26 years of history there of great success. So hopefully, it continues, but it's hard to estimate when we're going to have those pops from time to time, but it does have a nice steady income stream. It's lending money at 13% plus rates, and then you have these kickers that kick in from time to time.

Anthony N. Cutrone
Executive VP & CFO

Yes. And those -- like I said, those kickers, book value is $11 million at the end of the year, and it's across some 34 portfolio companies that we've invested in.

Michael John Grondahl
Northland Capital Markets, Research Division

Cool. I don't know if it was tied to the commercial book or sometimes you guys in the past have made some one-off investments and whatnot. So I just wanted some clarity there. Any comment kind of for '24 on that, the net margin was like 8.50%. I know sometimes you guys talk about gross margin. But -- is that margin pressure largely done? Or do we see kind of a tail end of it in '24?

Anthony N. Cutrone
Executive VP & CFO

I wouldn't say it's done. We think that there's still a little compression to come. We saw our cost of funds increase in '23, but we also saw our top line, our yield go up. And that's part of -- it's the slow to turn ship when we talk about new originations at a higher level with a $2 billion book, it takes a while for that to trickle through to the income statement and show up in the yield.

But we're starting to see that. We think we still can see that the yield rise in '24. Cost of funds will also come up. There's a little bit more compression, but I think we're still comfortable thinking that it bottoms out around 8%, plus or minus a few basis points sometime towards the second half of the year.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. And then on the provision, Anthony, if I take your actual provision expense in the quarter, the $10.8 million. And if I add in back to the $12.1 million benefit from the taxicab collections. Am I thinking about it right, saying, hey, that provision was really $22.9 million. And you had said, hey, it stepped up in. Is that about the right level to think about on a quarterly basis now?

Anthony N. Cutrone
Executive VP & CFO

I think Q4 is always our worst performing quarter from a delinquency and charge-offs, if you think about in the coastal areas where we do a lot of our business, selling boats and outdoor activity, RVs. People are outside more when the weather is nice. So the end of November, December, January, things are worse. People aren't as concerned about making the payments on their boat, right? But once the warm weather starts coming around, those delinquencies typically drop.

So this is the seasonality we've seen over the 20-year period. We didn't experience it for the year or 2 following COVID. We started to see it a little bit last year, and we think it's back. Now time will tell if the delinquencies and the charge-offs that we experienced in Q4 are just seasonality or if there's something bigger in the economy. And that's something we're tuned to. And that goes back to the credit standards we have and really trying to change the composition of our book.

Michael John Grondahl
Northland Capital Markets, Research Division

Got it. Got it. Okay. And then have you collected anything in January or February so far tied to the taxicab medallions.

Anthony N. Cutrone
Executive VP & CFO

Everyone wants a home run 2 years in a row. We have collections coming in every day. Unfortunately, we don't expect them to be anywhere near the level that they were in 2023. We always knew and Andrew has spoken about this for a long time is that there was going to be a significant amount of recoveries. We expected that over a long period of time or a longer period of time, what we found is a lot of that showed up in 2023.

So at the end of '23, we still have a few larger relationships that have the potential for some meaningful recoveries. A lot of them are actually -- we've got structured settlements with them, and they're actually meeting those settlements. So we don't expect any windfalls as of now for 2024.

Andrew M. Murstein
President, COO & Non-Independent Director

And to add to that, Mike, there's a little bit of a wait and see in the Medallion industry in New York City now. Congestion pricing is supposed to kick in, in a couple of months. The hope of the Medallion industry is that, that's going to be very positive for them. The concept behind that is to keep consumer cars out of Midtown. And if that works, then you would think more people will take not only more Medallion rides, Yellow Cab rides, but also Uber and Lyft rides. But that whole sector should do better if this is done implemented the right way. So hopefully, it could be collections the second half of the year if more taxi usage increases, which is what we think will happen.

Michael John Grondahl
Northland Capital Markets, Research Division

Fair, fair. And Anthony, we got 16 inches of ice on our lakes in Northern Minnesota. So I understand that seasonality a little bit.

Anthony N. Cutrone
Executive VP & CFO

Thanks, Mike.

Operator

The last question comes from Matthew Howlett from B. Riley.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Another strong quarter. I guess the first question is just on your capital strength. I mean you're probably one of the highest ROE generating banks out there, you got -- you're incredibly efficient 40%. You look at your capital ratios, they look like they're just going to hear build as you slow down portfolio growth. I think you said what mid- to high single digits. I know you're being cautious, and I want to ask about the CECL reserve in a second, but as you grow -- as the capital continues to build, Anthony, and Andrew, do you feel like when you look at -- you just raised the dividend, you look at more buybacks, obviously, you talked about looking at other platforms. You are in an envious position as the capital continues to grow. And it looks like it's just going to continue to increase through '24. I just want to hear, would you look at more speeding up loan growth. Just curious what the thoughts are initially.

Anthony N. Cutrone
Executive VP & CFO

Yes. I think with the loan growth that we're looking at for 2024, like we just spoke about, we do need a fair amount of capital with the 15% maintenance requirement actually to retain. So we take that coupled in with the dividend that we've got in place to our shareholders. We think we're deploying that capital and that the generation of that capital appropriately. Obviously, we're always opportunistic if the opportunity to raise a preferred debt or a preferred equity at the bank like we've done in the past, we'd look to that.

But I think for now, there's nothing on the horizon in terms of what could happen. But buybacks, we still have $20 million available we're going to remain opportunistic with that. We could -- if something were to happen and it's accretive to shareholders to be in the market, we're going to do that, growing our business the way we have, and the way we continue to do, we think that's the best thing long term for our shareholders.

Andrew M. Murstein
President, COO & Non-Independent Director

Yes. As you know, Matt, these are good problems to have, right? If you look at our balance sheet, we've got a lot of cash on hand now. So there's a lot of options that we have available to us.

Anthony N. Cutrone
Executive VP & CFO

Yes. We just say with that cash on hand, the consolidated balance sheet. A lot of that is liquidity at Medallion Bank, and they keep a fair amount of cash on hand, and that could move based upon originations pretty rapidly.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Right. Look, you have a great track record of returning capital. I mean you did that with the buybacks. You raised the dividend. Clearly, you want to keep over that cushion to 15%, but it'd be interesting to see -- you guys are always opportunistic with capital, and certainly, the buybacks went a long way. So we'll look forward to that.

And then getting back to the CECL, Anthony and Andrew, is there a way to quantify? I mean, look, it was -- it just weighed down your results throughout '23, particularly in the fourth quarter. I mean I get the front-loading of it and everyone has to do it, but it seems like it's more onerous to you guys than everybody else. I know you talked about what you want to be cautious on the soft or hard landing. But is there any way to sort of tell us quantify here what really the CECL reserve could be '24.

It seems like with the slower loan growth versus '23 and then the movement up in credit, you clearly don't have as much subprime as you did several years ago. I mean could we see sort of a more normalization in that line. So it doesn't throw off the earnings and the ROE, you're already generating 70% ROE, but I'm assuming it's going to be a lot higher, we get a normalization in that provision line.

Anthony N. Cutrone
Executive VP & CFO

Yes. So it's a fairly complex analytical model that we've designed. And essentially, what it does is it tries to predict, it's the probable default weighted model that tries to predict what our future losses are going to be. So any time there's a change in outside economic variables, inflation changes, prime rate changes things of that -- unemployment changes, things of that nature. It's going to have an effect. Additionally, it looks at historical losses.

So if we see an uptick like we did in Q4, it's going to affect the provisioning as well. We expect that as we get through the first half of the year and charge-offs, assuming that seasonality is what we expect it to be, charge-offs come down some after maybe January, February, it's we should see maybe a reduction in some of that, but it's so closely tied to economic variables that it's -- it really is hard to predict. It's -- I think it's one of the things we were concerned about. And frankly, it's something that this unpredictability or this variability that we saw in Q4 is what we were expecting the full year. It's just that the first 9 months, it didn't show.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Right. No, look, it definitely has -- it certainly looked like it was over the punitive year in the fourth quarter. But we look forward to more of a normalization of that. I mean, it'd be interesting if you could run -- sort of how ex-CECL, how you used to do it, how the earnings sort of look this year versus the new CECL adoption. But we'll take a look at that. And I guess in the last question just on you've done a great job pricing. I think you said your rates now are over 16% on the rec and close to 12% on the home improvement. I mean it's been terrific. Are you bumping in, I mean can you just increase -- I mean where are you pricing? It seems like it's going to level off or you're running in anybody's competition, as you said, Andrew, the banks tend to back out at these parts of the cycle. I mean, just give us a little sense on competition and who you're bumping into.

Anthony N. Cutrone
Executive VP & CFO

Yes, I think obviously, as we raise pricing, that's going to have an effect on our originations. So there's definitely -- there's a fair way we want to operate in. We're not looking to price ourselves out of the market. But we definitely want to stay -- we're not as concerned with being competitive as we are with generating the type of returns that we typically see. So I wouldn't expect to see any meaningful decrease from these levels. That said, we -- if the Fed comes in with some rate cuts down the line, we're going to factor that into our pricing. Again, we don't want to price ourselves out of the market, but we're also not going to drop rates just to chase volume.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Is that correct? Certainly -- could be certainly a big boom for you guys. Really appreciate it.

Anthony N. Cutrone
Executive VP & CFO

Thanks, Matt.

Operator

We have a follow-up question from Mike Grondahl from Northland Securities.

Michael John Grondahl
Northland Capital Markets, Research Division

Yes. Anthony, operating expenses were like $75.5 million in 2023. Really only up a couple of million on 2022. Is that $75.5 million like the right base level for '24. Do you see like a couple of million growth throughout the year? How should we think about operating expenses in '24?

Anthony N. Cutrone
Executive VP & CFO

Yes, it's about there. Inflation isn't just a factor in terms of what it does to our borrowers. We've got over 100 employees. And so we give them standard of living increases so that you can keep up. So salaries will go up some because of our earnings, compensation was higher this year than it was maybe in past years. So that might come down a little bit. But I think I don't know that there's any extraordinary items in operating expenses that would cause it to fluctuate when we look at 2023.

Obviously, professional fees could vary down the line, but I think in terms of a normalized run rate, I think this looks about where we should be. That said, if you look 2 years ago, we're significantly higher. But over the course of 3 years, we've more than doubled our loan book. So as we scale, there's going to be additional costs that we incur, and that's just part of the business we're in.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Andrew Murstein for any closing remarks.

Andrew M. Murstein
President, COO & Non-Independent Director

Thank you again for joining us this morning. We had a great year, and we're proud of everything that we accomplished not only in 2023, but over the last several years. For 2024 and beyond, we're positioned well with a strong balance sheet, prudent reserve levels, and most importantly, an incredible team. We believe this will continue to deliver significant shareholder value. As always, if you have any questions, please feel free to call our Investor Relations team. The contact info is on the last page of our earnings supplement as well as the IR section of our website. Thank you again, everyone, and have a great rest of your day.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.