

these HTM securities at amortized cost, respectively. The ACL on these balances was \$2.1 million at December 31, 2021 and \$2.0 million at December 31, 2020 and we recognized credit loss expense of \$0.1 million during the year ended December 31, 2021. None of the overcollateralization triggers tied to the CLO securities were tripped as of December 31, 2021. Ultimately, the realized cash flows on CLO securities such as these will be driven by a variety of factors, including credit performance of the underlying loan portfolio, adjustments to the portfolio by the asset manager, and the timing of a potential call.

Our ACL on loans was \$42.2 million as of December 31, 2021, compared to \$95.7 million as of December 31, 2020, representing an ACL to total loans ratio of 0.87% and 1.92% respectively.

Our credit loss expense on loans decreased \$41.9 million, or 123.4%, for the year ended December 31, 2021 compared to the year ended December 31, 2020.

The Over-Formula Advances classified as factored receivables and deemed to be purchased credit deteriorated (“PCD”) from Covenant during 2020 had an impact on credit loss expense during the year ended December 31, 2020. Management determined that the \$62.2 million in Over-Formula Advances and some smaller immaterial factored receivables obtained through the TFS Acquisition had experienced more than insignificant credit deterioration since origination and thus deemed those Over-Formula Advances to be purchased credit deteriorated (“PCD”). This resulted in recording a \$37.4 million ACL on the PCD assets through purchase accounting during the year ended December 31, 2020. There was no initial impact to credit loss expense resulting from the PCD determination. At December 31, 2020, the ACL on the Over-Formula Advance PCD assets increased by \$11.5 million and the total ACL on all acquired PCD assets was \$49.0 million. The change in ACL on PCD assets subsequent to acquisition was charged to credit loss expense. This increase in required PCD ACL caused us to increase the value of our Covenant indemnification asset by \$5.3 million, which was recorded through non-interest income during the year ended December 31, 2020.

The Over-Formula Advances classified as factored receivables and deemed to be purchased credit deteriorated (“PCD”) from Covenant during 2020 also had an impact on credit loss expense during the year ended December 31, 2021. During that time, new adverse developments with the largest of the three Over-Formula Advance clients caused us to charge-off the entire Over-Formula Advance amount due from that client. This resulted in a net charge-off of \$41.3 million; however, this net charge-off had no impact on credit loss expense for the year ended December 31, 2021 as the entire amount had been reserved in a prior period. In accordance with the Agreement reached with Covenant, Covenant reimbursed us for \$35.6 million of this charge-off by drawing on its secured line of credit. As of December 31, 2021 the balance of Covenant’s credit facility had been fully repaid. Given separate developments with the other two Over-Formula Advance clients, we reserved an additional \$2.8 million reflected in credit loss expense during the year ended December 31, 2021. At December 31, 2021, our entire remaining over formula advance position was down from \$62.1 million at December 31, 2020 to \$10.1 million at December 31, 2021 and that \$10.1 million balance at December 31, 2021 was fully reserved. The \$2.8 million increase in required ACL as well as accretion of most of the fair value discount on the indemnification asset held at December 31, 2020 resulted in a \$4.2 million gain on the indemnification asset which was recorded through non-interest income during the year ended December 31, 2021.

The decreased credit loss expense was primarily the result of projected improvement of the loss drivers that the Company forecasted over the reasonable and supportable forecast period to calculate expected losses at December 31, 2021 which resulted in a benefit to credit loss expense of \$10.4 million for the year ended December 31, 2021. During the year ended December 31, 2020 the Company forecasted deterioration in the loss factors driven by the projected economic impact of COVID-19 which resulted in credit loss expense of \$16.7 million. See further discussion in the allowance for credit loss section below.

The decrease in credit loss expense was further driven by changes in net new specific reserves on non PCD assets. Including the aforementioned \$2.8 million additional specific reserve on PCD assets, we recorded a reversal of net new specific reserves of \$2.1 million during the year ended December 31, 2021 compared to net