SMALL BUSINESS FINANCE FORUM

VIRTUAL EDITION
Increasing Efficiency and Sustainability through Outsourcing, CDFI Partnerships, and Mergers

Moderated by:

George Surgeon
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GSJ Advisors, Ltd.
Nothing Lasts Forever
Managing for Resiliency
Learning from the ShoreBank Corporation

George P. Surgeon
President & CEO
GSJ ADVISORS, LTD.

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Nothing lasts forever

• Past is Prelude
• The ShoreBank Resiliency Story
  – The FDIC Cometh
  – Preparing and organizing for resiliency
  – And so it goes
• Lessons Learned
Past is Prelude
Past is prelude

• “There is nothing new in the world except that history you do not know.” - Harry Truman

• It’s getting to feel a lot like 2008
  – 44 million unemployment claims since March
  – The Fed forecasts 9.3% unemployment at year-end
  – The Fed forecasts that the economy will shrink by 6.3% while OECD forecasts 7.3%
Good to have the Financial Crisis in the rear view mirror

• Nonbank CDFI loan funds weathered the storm pretty well
• CDFI banks did not
  – 21% of all CDFI banks certified at year-end 2009 failed in the aftermath of the Financial Crisis
  – An additional 15% of CDFI banks were forced to sell or to merge
  – Thus, fully one-third of all CDFI banks disappeared as a result of the financial crisis
  – And this might be an undercount since it does not include those – like Douglass Bank – that failed in the early days of the Crisis or “reorganizations”
What does this have to do with me?

• This time it could be different

• CDFI banks entered the Covid Crisis generally in pretty good shape
  – Much better capitalized and less leveraged than in 2008
  – With stronger and more diverse earnings streams

• The same could be said for nonbank CDFIs except
  – Nonbank CDFIs tend to be more leveraged and with more assets pledged for collateral than just a few years ago
  – For those with loan concentrations in arts & culture, micro-credit, small businesses, retail shopping strips, and early childhood education the outlook is challenging
The FDIC Cometh
Setting the stage

- ShoreBank was founded in 1973 and had a successful and impactful 37 year run
- At the end of 2008, ShoreBank was the largest CDFI bank in the country
  - $2.4 billion in total assets
  - $1.5 billion in loans outstanding
  - $151 million in equity capital and a $46 million loan loss reserve
But signs of strain were already showing
- Earnings had fallen from $11.2 million in 2007 to a loss of $8.4 million in 2008
- Non-performing loans had increased to an unsustainable 8.3% of loans outstanding

The bank was a wholly owned subsidiary of ShoreBank Corporation
- At the time, ShoreBank Corporation had thirteen other subsidiaries and affiliates, seven of which were certified CDFIs
In 2009 things went south

- Unemployment on the South Side of Chicago reached 23.2% and the West Side 20.9%
- Home prices collapsed – by more than 50% in 8 of ShoreBank’s priority communities in Chicago
- In 2009 ShoreBank
  - Lost $105.3 million
  - Equity declined to $36.2 million while the loan loss reserve increased to $80.3 million
  - Non-performing loans increased to $298.2 million, 21.3% of loans outstanding
- 2008’s speedbump had turned into 2009’s brick wall
- Radical action was the only way forward
Preparing and Organizing for Resiliency
ACT – Action Co-ordination Team

• Created in November 2009
• Led by John Berdes, Laurie Spengler, and Arif Rizvi
• All hands on deck exercise – including the heads of all subsidiaries and affiliates, the leads of key operational areas such as Communications and IT, and several outside directors
ACT – goals and deliverables

• Overarching goal was “to ensure that nonbank companies have continued financial and mission success”

• Key deliverables:
  – Ensure adequate planning within each company and consistency among them
  – Ensure nonbank companies continue to have necessary operational infrastructure in place
And so it goes
The two ShoreBank banks did not make it

- ShoreBank failed in August 2010 and was taken over by the FDIC
- ShoreBank Pacific was sold under duress in December 2010
- ShoreBank Corporation filed for bankruptcy in January 2012
- This was not a “happy ending”
  - Equity investors were wiped out
  - Holding company unsecured creditors received 17 cents on the dollar
  - Many employees lost their jobs
  - Priority communities were less well served
Four nonbank companies were liquidated

- ShoreBank Enterprise Cleveland
- ShoreBank Capital Corporation
- ShoreBank Development
- ShoreBank Neighborhood Institute
However, eight of the nonbanks thrived as solo acts

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<thead>
<tr>
<th>ShoreBank Era Name</th>
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<tr>
<td>• National Community Investment Fund</td>
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<td>• ShoreBank Enterprise Detroit</td>
<td>• Detroit Development Fund</td>
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<td>• ShoreBank Enterprise Cascadia</td>
<td>• Craft3</td>
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<td>• ShoreBank International</td>
<td>• Enclude / Palladium Impact Capital</td>
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<td>• ShoreCap Exchange</td>
<td>• Capital Plus Exchange</td>
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<td>• ShoreCap International</td>
<td>• Equator Capital Partners</td>
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<td>• Center Financial Services Innovation</td>
<td>• Financial Health Network</td>
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The movie about the banks has a surprise ending

• ShoreBank’s deposits and assets were acquired by Urban Partnership Bank
  – UPB was created by ShoreBankers and capitalized with the funds initially raised to recapitalize ShoreBank
  – UPB “inherited” ShoreBank’s CDFI status and continued ShoreBank’s mission

• Beneficial State Bank, a CDFI and certified B-Corp, acquired ShoreBank Pacific
  – ShoreBank Pacific became the cornerstone of its expansion into the Pacific Northwest
Lessons Learned
The list

• Decide on your objectives and stick to them
• The resiliency process has to be led by your best and brightest
• You do it - third parties only for technical areas
• It takes longer and costs more
• Time is not your friend
• It’s the little things .......... 
• Some on your board and some among your investors will lose faith
• You cannot go it alone – It’s good to have friends
• Maintain your values
The moral of the story

• Without a well executed Resiliency Plan, no one lives to fight another day

• In any case, nothing lasts forever
Thank you.

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Increasing Efficiency and Sustainability through CDFI Partnerships, Outsourcing, and Mergers

Donna Gambrell
President and CEO
Appalachian Community Capital
Community Reinvestment Fund, USA

Frank Altman
Founder and CEO
CRF’s Approach

We develop solutions for people, communities, and the entire financial system. We believe that true change is only possible when inequities at all three levels are addressed.
Over 1,700 loans totaling more than $495MM through a network of 40 community partners
## Organizations Partnering with CRF in Making PPP Loans (partial list)

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<thead>
<tr>
<th>Accion Chicago</th>
<th>Native CDFI Coalition</th>
<th>Meridian</th>
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<tr>
<td>Ballmer</td>
<td>Growth Capital</td>
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<td>Boefly</td>
<td>Goldman Sachs</td>
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<td>Bridgeway Capital</td>
<td>Kresge Foundation</td>
<td>Southland (Chicago)</td>
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<td>CCLF</td>
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<td>CDFA</td>
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Platform: It is unique and scalable

- 40+ CDFI community partners
- 60+ small business loan products
- 3 bank partnerships
- 1 Fintech partnership

- 25+ lending partners
- Over $5 billion in loans originated
- Offering $10k micro loans → $20M commercial loans
- Advanced product infrastructure to support scale

- Build, deploy and manage structured funds
- Rated S&P Servicing Operation
- Master Servicer capacity
- Investor reporting and fund management
Chicago Small Business Resiliency Fund

- 11,600 matched requests totaling $380MM
- 442 funded loans totaling $13MM

New York Forward Loan Fund

- 7,300 matched requests totaling $433MM
- Loans currently being funded

Hi, I'm Lisa and I'll help you find funding.

How much do you want to borrow?

It's okay to give an estimated loan amount.

$
Loan origination platform

More than 25,000 loans in excess of $5 Billion processed
CRF Loan Servicing

- 58 lending partners
- PPP loans serviced = $426MM
- Total amount serviced = $2B
- Total loans processed = 9,500