Disclaimer

The Bancorp Inc (NASDAQ:TBBK): Bridge to Nowhere

"Roaches everywhere like we forgot to take the trash out"

– Future, "Low Life"

We are short The Bancorp, Inc. ("TBBK", "the Company") because we believe the Company has misrepresented the quality of its real estate bridge loan ("REBL") portfolio. Over the past 10 quarters, TBBK's REBL book has ballooned from zero to $2 billion, or 2.5x the value of the Company's common equity and only provisioned $4.7 million.[1] Despite widely acknowledged stress across TBBK's Class C Sunbelt markets, the Company claims that *"we don't have any substantial risk of default and loss."* We think otherwise. **Utilizing UCCs, liens, deeds, and local property records, we uncovered loans totaling $141.6 million, or 50% of the Company's $283 million in loans coming due just this year, that we believe harbor meaningful risks.** In Part 1 herein, we center our analysis on the 2H 2021 vintage loans, but we believe the rest of TBBK's book faces the same problems. To that end, we profile two additional 2022 vintage loans that we believe typify these problems. **These properties are, quite literally, crumbling: ridden with crime, shootings, looting, infestations, fires, and even full-on condemnations, while vacancies remain high and rents have remained stagnant.** Our views are not only informed by our loan-by-loan analysis, but by our visits to 21 different TBBK-funded properties in the past 2 weeks, our conversations with former TBBK employees including a former REBL underwriter, and conversations with several of TBBK's borrowers/syndicators. Our full report profiles eight TBBK loans as case studies. For example:

- In October 2021, TBBK funded a $39.4 million loan to 2310 Crescent Park Drive, Houston, Texas – a 436-unit complex called The Aubrey. In November 2022, a 17-year-old was shot and killed at the complex, and the victim's mother is currently suing the owners. A market-leading real estate data provider suggests that the complex is just 47% occupied, rendering agency refinancing a non-starter.[2] **Despite CEO Kozlowski claiming on TBBK's Q4 2023 conference call that the Company had no substantial risk of default or loss on its REBL loans, footnotes to TBBK's Form 10-K filed just 4 weeks later disclosed that an unnamed borrower on a $39.4 million loan had not made required interest payments for the past 3 months. Nevertheless, TBBK has made zero reserves against this loan.** Recent reviews of the complex are overwhelmingly negative, calling the units "*disgusting*", "*crawling with cockroaches*", and claiming that "*everything seems like it's falling apart.*" The equity in the deal was financed by a syndicator, TruePoint Capital, whose founder Kyle Jones spent his career in software sales before deciding in 2020 that his true calling was to become a real estate guru. TruePoint claims that it is "*reinventing the way you build wealth*" by generating "*reliable fixed returns*" in investments with "*reduced risk and greater reward*."

- Similarly, in November 2021, TBBK funded a $12.3 million loan against 501 West 7th Street, Plainfield, New Jersey. In August 2023, the building was condemned after hundreds of code violations and complaints. In September 2023, reports of break-ins and intruders surfaced, and in December 2023, at least 15 people were injured after a fire broke out in its sister building.[3] **We visited the property just days ago and confirmed that the buildings are still condemned. Windows remained boarded up and after-effects of the December fire remained visible throughout.**

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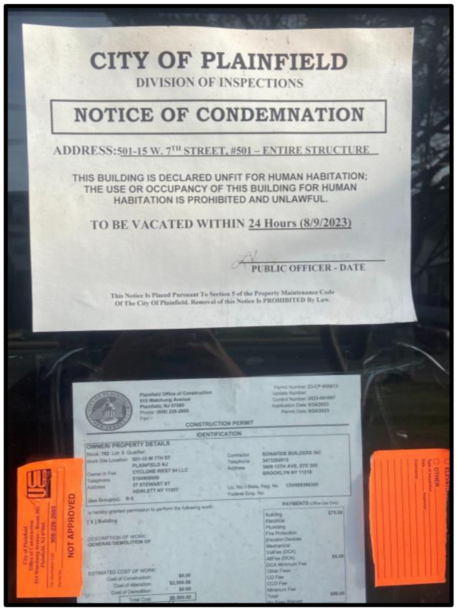
[1] Real Estate Bridge Loans ("REBLs") are secured only by the underlying property and contain no recourse to the borrower. They are underwritten up to 80% LTVs plus the full value of renovations which lenders draw from the bank.
[2] High vacancies were also corroborated by our investigator's March 2024 visit to the property.
[3] The condemnation spans 501 to 515 West 7th Street.




TBBK's book also appears rife with unsophisticated syndicator borrowers. Unlike corporate borrowers with dry powder and the temperament to "extend and pretend", syndicators tend to work on a deal-by-deal or fund by fund basis, and thus don't have much breathing room, in our view. **Our review of their marketing materials suggests investors have been coaxed by promises of generational wealth through passive income. For example:**

- One TBBK-funded property looks to have been funded in part by OwnProp, which sold "tokenized ownership stakes" in the deal and brags that investors can get in on the action for as little as $100. OwnProp claimed to potential investors that this particular TBBK-funded deal could generate returns of over 200%. We visited the property just days ago and noted that windows remained boarded up from a January 2024 fire. Per one resident, "*my apartment building was completely on fire. Me and my son had to run for our lives...*" Other residents complain of roach and rat infestations.

- Another TBBK borrower/syndicator encourages potential investors to complete just five steps to quit their jobs and generate "*generational wealth in seven to ten years*." The same syndicator practically bragged to us that "*I love my doctors and lawyers*" as LPs because they can't differentiate a good deal from a bad one.

- Yet another TBBK borrower/syndicator was a long-time network engineer before he started syndicating deals in 2020. He now runs a service teaching retail investors how to "*build generational wealth*" in multifamily. According to him, just "*sit back and enjoy the checks!*" Fittingly, TBBK itself sponsors an aptly named "LendingCon" event where noobie operators can learn how to lever up and buy properties.

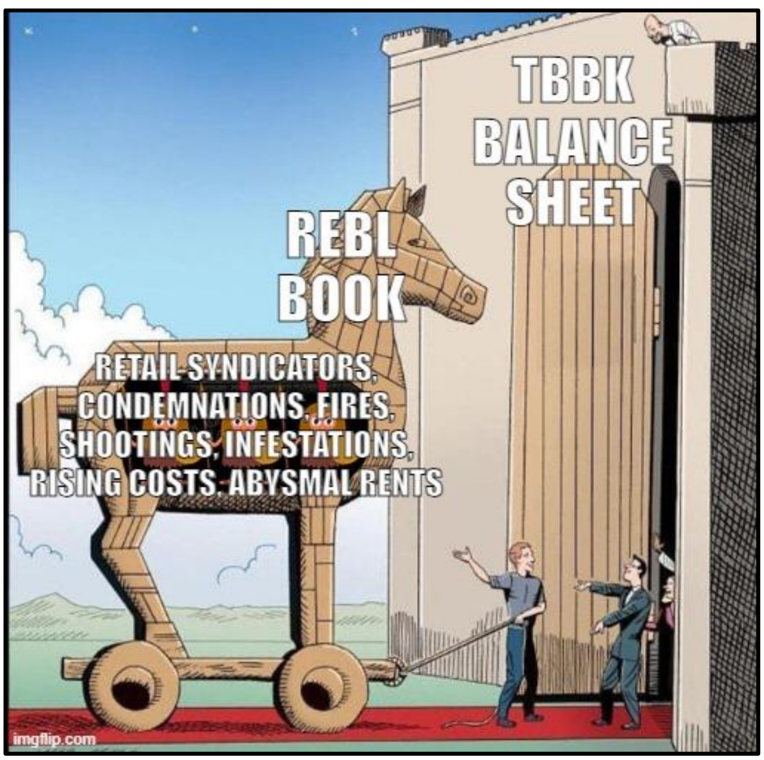
In short, we view many of these loans as being driven by syndicators with "get rich quick" dreams who believed that they could easily rehab units, fill them with tenants, increase rents, and cash out for quick "passive" returns. Yet we believe that for these properties, none of these things have happened: costs have skyrocketed, vacancies remain high, rents have remained relatively stagnant, and interest rates have more than doubled. As these loans come due, we believe that not only will many GP/LP stakes be wiped, but TBBK will face meaningful losses. To that end, TBBK's $4.7 million in reserves, at just 0.24% of its REBL book, are a total farce. **We could not find a single public lender who held fewer reserves than TBBK. The 17 other lenders we reviewed hold 4x to 7x TBBK's reserves**. We also spoke with a former TBBK REBL underwriter who told us that they might expect TBBK's losses to be anywhere from 10x to 15x higher than the Company's actual reserves: ***"When loans come due, there will be***

potential issues where the value's just not there ... they are going to have to put cash into the deal to make it work or they'll just give the keys back."

TBBK holds 148 REBLs at an average balance of $13.5 million and LTV of 72%.[4] **As non-agency multifamily bridge rates have moved from sub-4% to 9-15% today, when 3-year rate caps expire, the average borrower's interest expense will skyrocket from $0.54 million to $1.35 million, more than wiping out net operating income (NOI) at these properties, if there's any left to begin with.** Borrowers who opt to refinance will likely be met with minimum requirements of 1.25x DSCR coverage, implying a maximum of $8.8 million in new capital at these newfound higher interest rates, even if we generously assume that NOI at these properties has remained stable. **This in turn implies not only total losses on GP/LP equity stakes, but a 35% discount to the average $13.5 million TBBK loan, at the midpoint of our estimates.[5] If we assume that half of the REBL book is troubled – in line with what we've already uncovered within the Company's 2H 2021 loans, losses could potentially reach $350 million, or 43% of TBBK's book value.**

TBBK already holds a history of regulatory run-ins. The Company settled with the SEC twice in September 2019 and August 2022, related to its mismarking of real estate assets and loan losses. In September 2022, TBBK changed regulators from the FDIC to the OCC, and announced in March 2024 just days ago that it would be dismissing its auditor for the past 24 years, Grant Thornton and downgrading to Crowe. Coincidentally, TBBK has disclosed multiple critical audit matters, including related to credit loss allowances, in its Form 10-K filings since 2020.

TBBK shares trade at 2.5x book value, a higher multiple than every other lender we reviewed. TBBK's performance has been totally divorced from peers and from its economic realities, in our view. Investors view the massive wooden horse of a REBL book as a trophy; we believe it's a trap. Investors just haven't bothered to look inside...

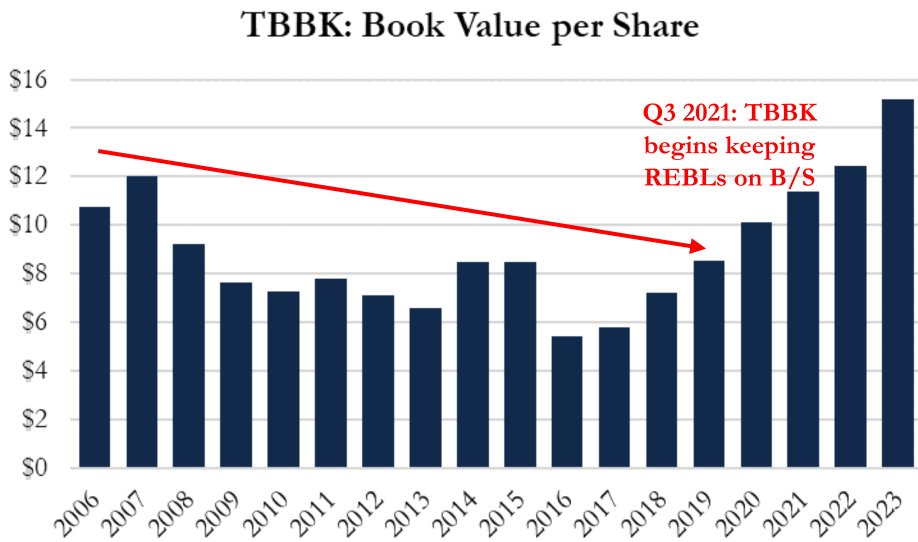


[4] See 2023 Form 10-K. Figures imply average total purchase prices of $18.8 million per property/associated loan.

[5] See pages 25 and 26 of this report for a full explanation of our views, estimates, and assumptions.

Background: The Bancorp's Ill-Timed Foray into Multifamily Bridge Lending

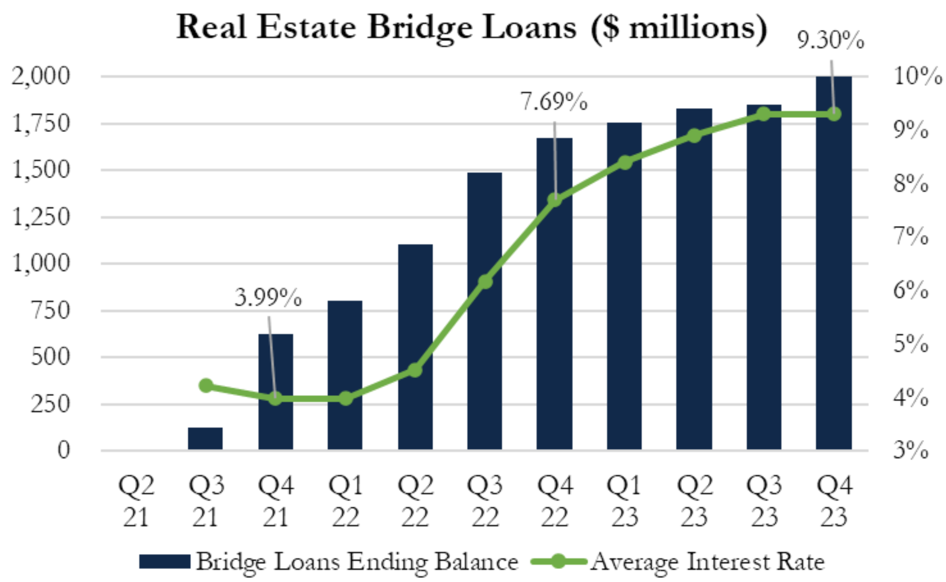
TBBK is a branchless lender providing institutional, commercial, small business lending, and fleet leasing with a particular focus in the Sun Belt.[6] Prior to 2021, TBBK was a relatively sleepy company with unremarkable returns; book value per share in fact declined over the past decade plus.[7]



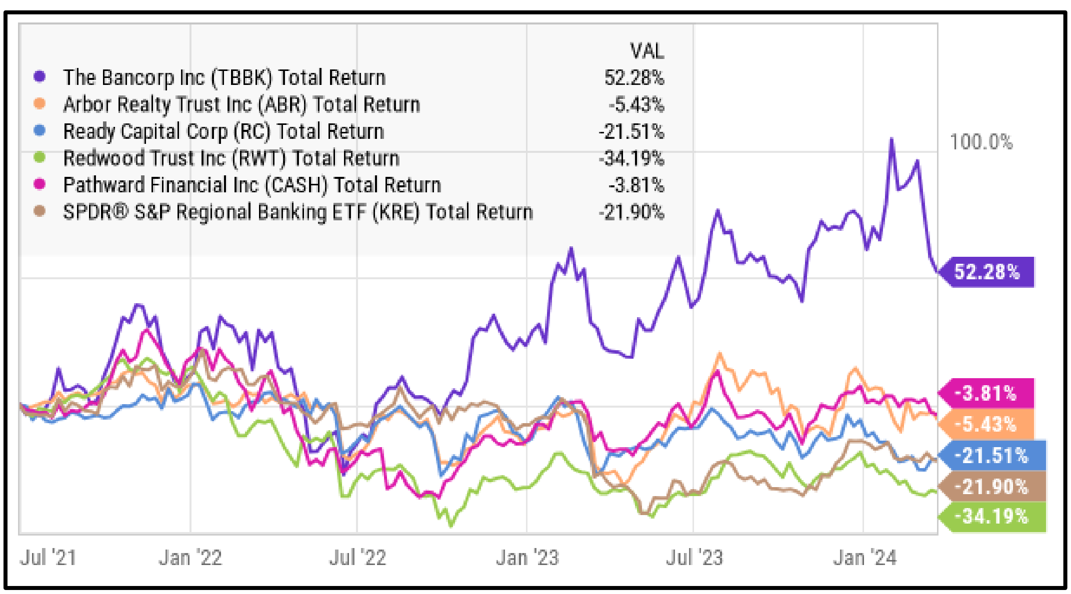
TBBK historically originated multifamily bridge loans and securitized them into CLO structures.[8] However, in Q3 2021, TBBK began originating REBLs for its own balance sheet. TBBK lends up to 80% of the purchase price of a property in addition to a draw for up to 100% of capital improvement budgets at variable interest rates, with zero recourse beyond the property.[9] Borrowers take out these loans with the intent to rehabilitate the property, raise rents, and refinance existing debt into agency financing structures or sell the property at an increased valuation.[10]

As interest rates reached all-time lows in 2021 and 2022, TBBK's REBL book exploded from zero in Q2 2021 to $2.0 billion at year-end 2023. The portfolio now represents 2.5x the Company's common equity of $807 million.[11] Meanwhile, floating rates on these loans rose from sub-4% in late 2021 and early 2022 to 9.30% as of year-end. From 2022 to 2023, the effect of rising rates drove $95.2 million in net interest income, or 85% of the Company's total net interest income for the year, largely due to these bridge loans.[12]

[6] See 2023 Form 10-K page 64; over half of the Company's commercial real estate loans are in Texas, Georgia, and Florida.
[7] As an aside, TBBK claims in its 2023 Form 10-K that "We expect our payments business to generate non-interest income and attract stable, lower cost deposits..." Bulls parrot this "low-cost deposit" narrative, yet we fail to see this in the numbers. TBBK's average cost of deposits is in line with peers, if not higher. In 2023, TBBK paid 2.32%; CASH 1.50%; WFC 1.74%; JPM 2.03%; RF 1.56%; RNST 2.35%; UCBI 2.59%, per our calculations from each company's latest annual reports.
[8] See Q3 2022 Form 10-Q, page 9.
[9] TBBK required 3-year interest rate caps on the vast majority of these loans, hence protecting borrowers over the initial terms. However, borrowers remain exposed as these initial terms expire.
[10] GSE loans come at discounted rates, but also strict requirements including a minimum 1.25x DSCR ratio and at least 90% occupancy for 90 days, with certain exceptions for properties under 30 units. All of the properties we profile are 30+ units.
[11] $2,213 million in exposure, if including the additional $217.1 million in non-SBA commercial real estate loans, at fair value. We consider only the $2,000 million for conservatism.
[12] See 2023 Form 10-K, page 51.



Anecdotally, former employees described a culture shift at TBBK as the REBL portfolio now drives the Company's broader earnings profile. For example, one employee claimed that the REBL origination group had its own New York City office and was unwilling to share with other TBBK employees.[13] TBBK even continues to sponsor a "LendingCon" conference *"to help individuals and companies buy, sell, and manage real estate."* Investors now sing the Company's praises, as shares trade at 2.5x book value and have substantially outperformed comparable groups since bringing the REBLs on balance sheet:



Source: YCharts; June 30, 2021 to March 20, 2024

[13] An informal review of TBBK's employees on LinkedIn appears to corroborate this claim in part, as the real estate origination group appears to primarily reside in New York City.

TBBK Buries its Head in the Sand Amid Widespread Stress in Its Core Markets

Over the past 12 months, rising rates, supply/demand imbalances, rising labor and material costs, rising insurance costs, and unfavorable eviction policies have led to challenges for many multifamily operators, especially in lower-class and Sunbelt markets where TBBK has made billions in loans.[14] As early as May 2023, the Wall Street Journal was penning articles detailing the pain, and many more properties have been forced into defaults and foreclosures since then. For example: in August 2023, Applesway sold a foreclosed property for $50 million despite a $65.2 million loan; in December 2023, GVA defaulted on $125 million in Austin-based loans; in January 2024, Elevate faced foreclosure on a $38 million loan tied to Houston-based Selena Apartments; in February 2024, TPG unloaded a 176-unit complex for $56 million despite an $80 million loan. The pain is widely expected to continue:

- Ready Capital's (RC) CEO Thomas Capasse stated on the February 28, 2024 earnings call that, *"...the largest sponsors in the Sunbelt markets, for example, where there's significant negative absorption, that has to be a period of negative absorption as new supply hits over the next year, year and a half..."*

- MFA Financial (MFA) CEO Craig Knutson stated on the February 23, 2024 earnings call that, *"...many would argue that the '21 probably is the one that would be at most risk across the spectrum because rates were low, things were underwritten, probably looser, frothier, home price appreciation as well as rent increases."*

- In December 2023, The Crittenden Report wrote that *"Class B and C multifamily assets in some Sunbelt markets that are now experiencing flat or declining rents will be harder to capitalize..."*

Yet amid both these challenges and the growing importance of the REBL book to TBBK, we find the Company's disclosures extremely opaque and underwhelming. For example, TBBK does not provide investors with quarterly or even annual metrics such as the underwritten cap rates, occupancy rates, NOIs, or DSCRs on the properties securing its underlying loans. Nor does it provide borrower metrics such as cash reserves. As such, investors have been left relatively in the dark as to the health of these loans. TBBK instead blindly reassures investors that its book contains "*no substantial risk of default or loss*", per CEO Damian Kozlowski on the Q4 2023 conference call:

> *"So it's -- we do have some deferments. This is very natural, though. No write-offs. No, we don't believe any substantial risk of default and loss but as you mature that port, it's hard to know whether it's just a maturing portfolio where you have some people who have finished the projects or it's more based on the economy, it's not abnormal we're not seeing anything abnormal yet ... sometimes they can't get the refrigerators or they can't -- they take longer than they expect in order to finish the project, even though they might be leasing it up, they didn't finish 3 buildings. So this is common. Whether that's driven by economic what's happening in the economy, we don't believe that's the major factor in it. It's impossible that I can't give you an answer because I don't -- there's really not an answer."*

We think these reassurances are totally empty; TBBK's REBL portfolio faces meaningful risks and will result in meaningful losses.

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[14] Atlanta, for example, is known to be tenant friendly especially during COVID. Per one syndicator we spoke with, "*Think twice about Fulton County. Their entire eviction process is 100% broken, you can't get a tenant out for 9 months at the moment.*" Moreover, Florida, for example, has seen skyrocketing insurance costs.

TBBK's Reserve Levels Don't Pass the Laugh Test

TBBK has reserved all of $4.7 million in REBL loan allowances, representing a mere 0.24% of the total REBL book.[15] We think this is a total farce, and TBBK's reserves are short by an order of magnitude or more.

	December 31, 2023						
	SBL non-real estate	SBL commercial mortgage	SBL construction	Direct lease financing	SBLOC / IBLOC	Advisor financing	Real estate bridge lending
Beginning balance 1/1/2023	$ 5,028	$ 2,585	$ 565	$ 7,972	$ 1,167	$ 1,293	$ 3,121
Charge-offs	(871)	(76)	—	(3,666)	(24)	—	—
Recoveries	475	75	—	330	—	—	—
Provision (credit)[(1)]	1,427	236	(280)	5,818	(330)	369	1,619
Ending balance	$ 6,059	$ 2,820	$ 285	$ 10,454	$ 813	$ 1,662	$ 4,740
Ending balance: Individually evaluated for expected credit loss	$ 670	$ 343	$ 44	$ 1,827	$ —	$ —	$ —
Ending balance: Collectively evaluated for expected credit loss	$ 5,389	$ 2,477	$ 241	$ 8,627	$ 813	$ 1,662	$ 4,740
Loans:							
Ending balance	$ 137,752	$ 606,986	$ 22,627	$ 685,657	$ 1,627,285	$ 221,612	$ 1,999,782
Ending balance: Individually evaluated for expected credit loss	$ 1,919	$ 2,381	$ 3,385	$ 3,785	$ —	$ —	$ —
Ending balance: Collectively evaluated for expected credit loss	$ 135,833	$ 604,605	$ 19,242	$ 681,872	$ 1,627,285	$ 221,612	$ 1,999,782

One former TBBK REBL underwriter we spoke with stated that traditionally, investors ought to expect 2% to 3% losses, but in the current environment, that could be higher: *"Traditionally these loans have like a 2-3% loss rate. I'd imagine they come up to that number ... maybe 50 or 75 basis points to the upside."* TBBK's measly reserves also stand out when compared to other lenders. **<u>We could not identify a single public lender with lower loss reserves as a percentage of total loans, both on a consolidated basis or for TBBK's REBL book in isolation:</u>**

Company	HQ	Price/Book	Loans	Allowance	Percentage
JPMorgan Chase (JPM)	New York	1.8x	1,344,948	22,420	1.67%
Wells Fargo (WFC)	California	1.2x	922,076	14,606	1.58%
PNC (PNC)	Pennsylvania	1.2x	316,717	4,791	1.51%
Regions Financial (RF)	Alabama	1.1x	96,803	1,576	1.63%
Axos Financial (AX)	Nevada	1.4x	18,516	252	1.36%
United Community Banks (UCBI)	Georgia	1.0x	18,111	208	1.15%
Simmons First National (SFNC)	Arkansas	0.7x	16,620	225	1.36%
Independent Bank Group (IBTX)	Texas	0.8x	14,559	152	1.04%
Resanant Corporation (RNST)	Mississippi	0.7x	12,153	199	1.63%
Customers Bancorp (CUBI)	Pennsylvania	1.1x	11,889	135	1.14%
Seacoast Banking of Florida (SBCF)	Florida	1.0x	9,914	149	1.50%
ConnectOne Bancorp (CNOB)	New Jersey	0.7x	8,345	82	0.98%
S&T Bancorp (STBA)	Pennsylvania	0.9x	7,653	108	1.41%
TriCo Bancshares (TCBK)	California	1.0x	6,794	122	1.79%
Southside Bancshares (SBSI)	Texas	1.1x	4,485	43	0.95%
Pathward Financial (CASH)	South Dakota	1.8x	4,373	54	1.23%
First Internet Bancorp (INBK)	Indiana	0.8x	3,840	39	1.01%
Group Median		1.0x			1.36%
Group Average		1.1x			1.35%
The Bancorp (TBBK): Consolidated	**South Dakota**	**2.5x**	**5,334**	**27**	**0.51%**
The Bancorp (TBBK): REBL Loans	**South Dakota**	**2.5x**	**2,000**	**5**	**0.24%**

Source: company-by-company annual reports

[15] See 2023 Form 10-K, page 69.

Finally, our loan-by-loan analysis of TBBK loans funded in the second half of 2021 alone suggests that the Company ought to be reserving far more than $4.7 million.

Our Loan-By-Loan Analysis Suggests Significant Underlying Issues

We've uncovered at least 7 loans TBBK extended in the second half of 2021 alone, that per our research are not only less than 90% occupied but subject to problems such as infestations, crime, fires, and even condemnations.[16] Moreover, despite borrowers' "value-add" intentions, rents on these properties have barely budged since the loans were taken out.[17] We recognize that generally, a property might see temporarily high vacancies as more substantial unit-level renovations are completed,[18] yet we would then expect substantial rent increases of 20% or more to follow. One TBBK borrower told us that they target post-rehab rent increases of $200/month or more, per unit, roughly in-line with this percentage given average rents for the loans we analyzed. However, the properties we profile herein suffer from both minimal rent increases and high vacancies, even as loans approach maturity.

Name of Apartments	Property Address	Built	Loan Date	Loan	Total Price	LTV	Units
Aspire Richmond Hill	526 Richmond Hill Rd W, Augusta, GA	1971	Aug-21	$16.3	$21.8	75%	126
The Aubrey	2310 Crescent Park Dr, Houston, TX	1978	Oct-21	$39.4	$49.3	80%	436
[Unnamed Apartments]	501-515 W 7th Street, Plainfield, NJ	1925	Oct-21	$12.3	$14.6	84%	84
Capewood Apartments	4335 Aldine Mail Route Rd, Houston, TX	1976	Nov-21	$12.3	$15.3	80%	176
Riverpark at Kensington	7803 S Wheeling Ave, Tulsa, OK	1982	Dec-21	$31.2	$33.5	93%	400
The Aliso	807 Flame Circle, San Antonio, TX	1965	Dec-21	$13.0	$16.2	80%	176
Harrison Grant Apartments	4210 Fredericksburg Rd, Balcones Heights, TX	1974	Dec-21	$17.2	$22.9	75%	327
				$141.6	**$173.5**		

Source: UCCs, liens, deeds, corporate filings, property records, and a market leading real estate data provider.

<u>In total, we estimate these loans represent $141.6 million in principal, or 50% of the Company's $283 million in REBL loans coming due in 2024 alone.</u>[19] We profile 6 of these 2H 2021 vintage loans, as well as 2 additional 2022 loans as case studies in the pages that follow.

<u>Case Study 1: The Aubrey (Houston, TX)</u>

In October 2021, TBBK funded a $39.4 million loan against a $49.25 million purchase of 2310 Crescent Park Drive, Houston, Texas, a 436-unit apartment complex called The Aubrey, at an 80% LTV. The buyer was a syndicate – TruePoint Capital, LLC run by Kyle Jones, who promises potential investors that the group is "*reinventing the way you build wealth*" by generating "*reliable fixed returns*" in investments with "*reduced risk and greater reward*." TruePoint CEO Kyle Jones's [LinkedIn shows] that from the time he graduated college in 2007 all the way until August

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[16] Recall that GSEs require a minimum of 90% occupancy for 90 consecutive days, as well as 1.25x DSCR coverage, at a minimum, to qualify for financing.

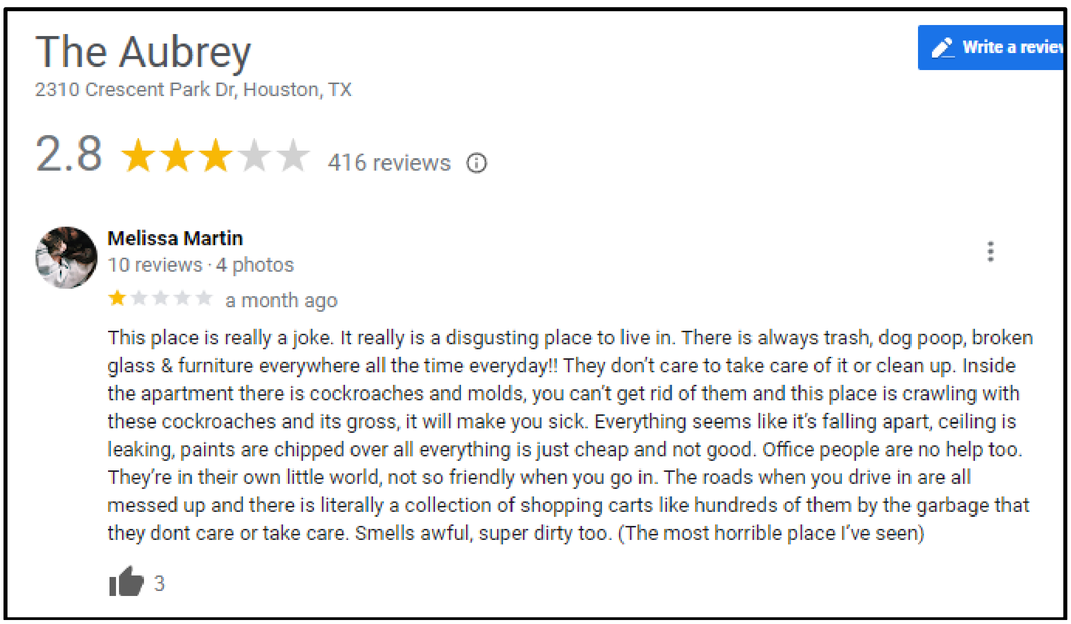
[17] Per a market leading real estate data provider, and corroborated by our site visits, conversations with leasing agents, and the properties' leasing websites. "Prior rent" refers to average net effective rent in the quarter in which the loan was underwritten, while YTD rent refers to average net effective rent on a YTD basis.

[18] This dynamic is also why we centered our research on loans underwritten in 2H 2021, rather than on loans originated in 2022 or 2023.

[19] TBBK 10-K for year-end 2023 discloses $283 million in REBLs due within 12 months. Given typical 3-year REBL terms, 2021 loans translate to 2024 maturities.

2020, he worked in software sales, most recently at IBM. His website biography proudly touts that he played baseball at Texas State. It's unclear to us how these attributes make him qualified to manage millions in real estate.

A market-leading real estate data provider estimates that The Aubrey is currently just 47% occupied, while net effective rents have moved from $967 to $1,034, a change of just $67 or a 2.8% CAGR since the loan was made. These figures make agency refinancing a non-starter, in our view, given 90% occupancy and 1.25x DSCR requirements.[20] It's clear to see why the property is so highly vacant: despite TruePoint having taken out the loan in October 2021, the property has been in constant disarray. In November 2022, a 17-year-old was shot and killed at the apartments; the victim's mother is currently suing. Recent reviews are overwhelmingly negative, calling the units "*disgusting*" and "*crawling with cockroaches*."



[20] High vacancies were also corroborated by our investigator's March 2024 visit to the property.

Dana Harris
Local Guide · 81 reviews · 12 photos
★☆☆☆☆ 3 months ago

11/23 Review update
I guess my daughter and supposed to continue to live in a roach infected apartment. Pest control spay stuff that don't work. I get better results with Raid but yet its attached to my rental fees. I pay renter's insurance that is attached my rental fees but they dont want to fix things. Spent 3 weeks in triple digits heat to fix a roof that still leaks. I have reported to the leasing office and emailed the corporate office. No response and still leaking every time it rain. I have even completed a work order and yet stillTo add to the issue my apartment smell like mildew, mold and dry rot. But still waiting on that resolution. Oh but you can come at me about rent!

03/23 Review
I move in the place in March of this year and within a week the ceiling started babbling and a hole leaking water from the ceiling in my daughter's room. The smell was horrible and it took a month for it to be patched up not fixed but patched. I also put in the same work order the ceiling in my room was bubbling up as well. I am still waiting on them to come back to patch my ceiling. Within the same month (March) made a payment using there portal that was never posted. For April, I noticed the payment wasn't posted still and on top of that a late fee applied as well. I did pay the late fee along with the amount missing of $228.95. Finally got tired of emailing and calling the leasing office about the missing payment. The headache and the way I was spoke to as if I was in the wrong for demanding answers about the missing payment. First of all I completed on application and the office tried to put that payment for a second application for my 7yr old daughter. When do we have to pay application fees for miner? Now it was hesitant to put a notice on my door for a balance of $3.93 but took a month to fix one ceiling in one room and two months to fix a credit of payment. Mind you, my ceiling still needs patching.

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In TBBK's 2023 Form 10-K filed on February 29, 2024, the Company disclosed that an unnamed $39.4 million Texas-based borrower had stopped making interest payments 3 months earlier. Based on the matching amounts (no other loan we analyzed matched $39.4 million exactly) and locale, we believe this loan to be against The Aubrey:

> *"**Not included** in the non-performing totals presented above, **is a $39.4 million REBL loan collateralized by an apartment complex in Texas, for which the borrower did not make December 2023, and January and February 2024 monthly interest-only payments as required under the related loan terms**. Rehabilitation and related expenses exceeded initial estimates, further complicated by construction delays. Accordingly, management is considering its options to resolve this loan. While a September 2023 appraisal shows an as-is value which exceeds the loan balance plus currently estimated remaining construction costs and an as-if stabilized value exceeding $50.0 million, there can be no assurance that such amounts will ultimately be realized upon resolution."*

However, TBBK still did not take any reserves on this loan and did not even bother to include it in the non-performing totals, nor in its consideration of delinquent loans.[21]

[21] See 2023 Form 10-K, page 68.

Case Study 2: 501 West 7th Street (Plainfield, NJ)

In November 2021, TBBK funded a $12.3 million loan against 501 West 7th Street, Plainfield, New Jersey, as shown via Union County, New Jersey public records below:

CYCLONE WEST 84 LLC
(Mortgagor)

to

THE BANCORP BANK
(Mortgagee)

MORTGAGE, ASSIGNMENT OF LEASES AND RENTS AND SECURITY AGREEMENT

Dated: As of October 27, 2021

Property Location: 501-515 West 7th Street, Plainfield, New Jersey

In August 2023, the building was condemned after hundreds of code violations and resident complaints. At the time, local news reporters spoke with residents who claimed that the owner *"has ignored their pleas for help in fixing the deplorable conditions for more than a year."*

The City of Plainfield condemned two apartment buildings, but residents say they had just paid their August rent and are now out thousands. Reporter Toni Yates has more.

Source: ABC 7 NY

In September 2023, reports surfaced that the buildings had been subject to intruders, and in December 2023, at least 15 people were injured after a fire broke out in one of the buildings. In March 2024, we visited the property and confirmed that 501-515 had indeed been condemned as of August 2023, as shown below. Windows were boarded up, trash was rampant throughout the properties, and we could still see the after-effects of the fire.

Source: Culper Research property visit, March 2024

Case Study 3: Capewood Apartments (Houston, TX)

In November 2021, TBBK funded a $12.3 million loan to Houston-based Capewood Apartments. A market leading real estate data service again estimates occupancy levels of just 79% and rents that have moved from $889 to just $944. These figures were again corroborated by our property visits. Documents list OBH Capewood LLC and Menashe Grunfeld of Omnibrook Holdings as owners of the property.[22] Omni + Brook's website calls itself a "*family-owned real estate investment and management company*" and confirms Menashe Grunfeld is a principal alongside Akiva Kranz. Both Grunfeld and Kranz's LinkedIn profiles show that they reside in Lakewood, New Jersey, roughly 1,400 miles away from Houston. In January 2023, OBH Capewood was sued for gross negligence by the Next Friend of a 21-year-old resident who was shot and killed in his apartment.[23] The case remains ongoing as of the last docket entry in November 2023.

> 15. At the time of Alvaro Calleja Jr.'s death, the drive through entry gate was wide open and was not monitored, the walk-in entry gates were propped open, there were no security guards or courtesy officers on the premises, the parking lot was dimly lit, and there were no exterior security cameras. **Adequate security measures were not unreasonable to implement and maintain, especially given the foreseeable risk of violent criminal activity to the tenants of Capewood Apartments.**
>
> 16. The shooting of Decedent Alvaro Calleja Jr. at Capewood Apartments was an incident that was avoidable and would have been prevented if Defendants had taken reasonable and prudent steps to prevent the occurrence of criminal acts at the property they own and manage. Defendants were aware of the need to: (1) prevent unauthorized persons from accessing the property; (2) prevent persons with certain criminal histories who did not qualify as tenants from living on or frequenting the property; (3) have an adequate security presence to prevent persons from committing crime on the premises; and (4) provide sufficient lighting to deter crime on the premises.

Source: Plaintiff's Original Petition filed January 12, 2023 Harris County District Court

Capewood's reviews complain that "*there is a lot of crime and drug sales*", "*2 boys broke into my apartment to steal*" and "*I would rather damage my credit than continue renting in this horrible place*." One review seems to sarcastically call the apartments "great" apart from the mice, roaches, gun shots, murders, and closed pool. Another review alludes to the complex potentially being demolished entirely.

---

[22] "OBH" = Omnibrook Holdings. See Harris County Clerk property records; sale dated November 11, 2021 to grantee OBH CAPEWOOD LLC.

[23] See District Court of Harris County, Texas case 2023-02418 "VERONICA GONZALES" vs. "OBH CAPEWOOD" et al.

Capewood Apartments

Write a review

4335 Aldine Mail Rte Rd, Houston, TX

3.3 88 reviews

Christy Salazar
58 reviews · 11 photos
a year ago
These apartments are great. Only problems were mice and roaches. And you here guns shots around here a lot. One guy was killed in apartment next to us. Was in the news. They never opened the pool this past summer.
2

Chris Macias
1 review
a year ago
I really rate it a 0 , Lived there for 10yrs they changed managers like they changed their draws . I was told by the last manager was I needed to move out for the fact they were Demolishing the whole apartment complex only to have 1week to move out. 😡 The Apartment complex n They still have Rat Problems
3

Omni Brook has also been criticized by local Arkansas reporters for their mismanagement of other properties, which tenants claim include water leaks and mold:

Add Westbridge Apartments to the list of dreadful Little Rock housing

BY Mary Hennigan ON March 8, 2023 4:43 pm 5 Comments

WATER LEAKS AND BREATHING IN MOLD: Resident Jerome Jerry Jackson Jr. has lived as Westbridge Apartments for 13 years. The conditions have grown so bad that he's desperate to leave, but restricted by funds. Mary Hennigan

Case Study 4: The Aliso, formerly Hidden Village Apartments (San Antonio, TX)

In December 2021, TBBK funded the $13.0 million loan against the $16.2 million purchase (80% LTV) of The Aliso, formerly known as Hidden Village Apartments, built in 1965 and located at 807 Flame Circle, San Antonio, Texas.[24]

THIS ASSIGNMENT OF LEASES AND RENTS (this "***Assignment***") dated and effective as of the 28th day of December, 2021 made by **807 FLAME CIRCLE PROPERTY OWNER, LLC**, a Delaware limited liability company having an office at 807 Flame Circle, San Antonio, Texas 78221 ("***Assignor***"), to **THE BANCORP BANK**, a Delaware state-chartered bank (together with its successors and assigns, hereinafter referred to as "***Assignee***") having an address at 3 Columbus Circle, Suite 2200, New York, NY 10019.

W I T N E S S E T H :

WHEREAS, Assignor is the owner of a fee simple title to that certain parcel of real property (the "***Premises***") described in Exhibit A attached hereto, together with the buildings, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and other improvements now or hereafter located thereon (collectively, the "***Property***");

WHEREAS, Assignor and Assignee have entered into a certain Loan Agreement dated as of the date hereof (as amended, modified, restated, consolidated or supplemented from time to time, the "***Loan Agreement***") pursuant to which Assignee has agreed to make a secured loan to Assignor in the maximum principal amount of **TWELVE MILLION NINE HUNDRED SIXTY-FOUR THOUSAND AND 00/100 DOLLARS ($12,964,000.00),** (the "***Loan***").

Source: Bexar County public records

A market leading real estate data provider currently estimates that 49 of 176 units are vacant, for a massive 28% vacancy rate. Net effective rents are estimated to have moved from just $957 to $976, a gain of just $19/month. The latest Google reviews for The Aliso and Hidden Village mention many of the same issues seemingly permeating TBBK-funded properties: infested, neglected, and unsafe.

yeleina romero
2 reviews
★ 6 months ago

if i can put zero stars i would. This place is horrible with rat holes maggots and all different type of species. If you have good car insurance please come here they will break windows and try to take your car and cameras do not work. They are so fast to change you for rent. There is also all types of people near the trash that are doing drugs. I feared for my life here and never felt safe. I hope this place would just close down and have a new management this is just horrible place to live in. The toilet was always running i would sleeping hearing ocean waves literally i could also swim in my bathroom floor from the amount of water on my floor. i hope one day this place with shut down.

6

[24] See local property records. Purchaser: 807 FLAME CIRCLE PROPERTY OWNER LLC. The purchase also references an address at 306 Chaucer Ave, San Antonio, TX 78221. For reference, both properties include 176 units across 144,255 square feet.

Leslie Rocamontes
1 review
a year ago
Was shown a unit that was supposedly renovated (not) the ac unit was full of mold, and that is very dangerous if you have any young ones, flooring was lifted, and kitchen was not updated at all except whoever painted it they did not seem to care one bit. i'm glad i didn't sign anything until looking which i recommend if anyone is going to live there.

Like

Katie Moreno
4 reviews
a year ago
Washers don't work expect us to pay so much and other hidden fees when they won't even get rid of the rats nor fix any of the problems we have that continue to get bigger . Your going to find needles where they shouldn't be . Gun violence all the time at night I can't even let my kids play outside without the worries of being harmed

1

In the lien agreement, 807 Flame Circle Property Owner, LLC lists Sumners Capital Properties LLC as its governing person, while Sumners Capital's website confirms that it "owns and operates" The Aliso, acquired in December 2021. Sumners Capital is yet another retail-oriented syndicator run by Kenneth Sumner, whose LinkedIn profile shows that he was a network engineer for his entire career before starting his full-time syndication business in September 2020. He now also runs "Apartment Educators", a consulting service which claims to help other retail investors "*build generational wealth*." In Sumners' words, all you need to do is "*sit back and enjoy the checks!*" This seems to us like the blind leading the blind.

About

You might have heard that real estate is a great way to build generational wealth, but how do you start? Or if you have started and are not seeing the kind of growth you expect, what might be wrong with your approach?

Hi, I'm Kenneth Sumners, Principal of Sumners Capital. We are a private equity group who connects investors with opportunities. I went from owning 2 investment houses to over 500 multifamily units in under a year. I would love to help you learn how to do this as well.

Passive investing in multifamily real estate is quite a unique investing experience for the uninitiated. Your job is to vet the team, vet the market, and vet the opportunity presented, and once those boxes are checked and you commit to a deal, there is not more work to do. Investors begin collecting "mailbox money", which is cash flow that is shed from the income that the property generates. You can expect regular updates as to the status of the property, but other than that, sit back and enjoy the checks! When the time is right, the property will be sold, with the expectation that investors receive their initial investment back along with a nice return. Rinse and repeat!

In 2013 the SEC created a rule allowing groups of investors to form a partnership to buy assets. This was being done before this rule by the wealthy, but was not available to typical investors. There are still some requirements to meet, but are much more attainable than the previous rules.

If you want to learn more about how to get started as a passive investor in multifamily real estate, let's chat. Setup a no-obligation introductory call with me, or send me a LinkedIn DM, email, or check out my website at SumnersCapital.com

Case Study 5: Riverpark at Kensington (Tulsa, OK)

In December 2021, TBBK funded a $31.2 million loan against a $33.5 million purchase of Riverpark at Kensington.[25] A market leading real estate data provider suggests that occupancy is just 85%, and average rents have again moved from $693 to just $759. Recent reviews claim that the property's issues span hot water, leaks, squatters, and varmints, proving a nightmarish living for residents.

> **Michelle York**
> 1 review
> 2 months ago
>
> I had the unfortunate experience of living here for three years, the last being with the current owners Vesta.
>
> My apartment had at least two major leaks a year, the most recent took nearly two months to fix and ended up being from squatters breaking in and showering in the disconnected unit above me. (Seriously) The office gave me the runaround, never checked the ceiling for structural damage or fixed the paint but I didn't care at that point as my lease was running out.
>
> Twice they had only one maintenance person on staff for hundreds of units.
>
> The office people are nice, that's about it. I don't think the young lady usually there can really do anything about these issues, she's just a friendly face for the property manager to hide behind. After the squatter incident I asked to speak with the property manager to ensure they sealed the hole in roof, they kept me on hold for twenty minutes - hung up and then didn't answer. Calling back an hour later after they figured out what to say, never spoke to the PM.
>
> What others are saying about the mailboxes was also my experience. It's not just doors being broken off, several times entire mailbox cubes had been broken off the stand. At one point it took three months to get a new mail door. I suggested they put up a decoy camera at least and I got a generic "we're looking into solving this issue" response, obviously that was never remedied.
>
> The old owners would hold packages at the office, the new owners stopped that. Packages will be stolen from your door, I even had one signed for and stolen.
>
> Roaches are legit. They come through the walls, my unit only stopped having roaches after plugging every outlet with child safe covers. They spray every 3-6 months, my apartment got an incorrect notice twice leaving me to empty and clean all my cabinets twice in a row for no reason, the office was no help.
>
> I got mice two winters in a row, pest control was quick in response.
>
> It's not uncommon to find dogs running loose from negligent neighbors. There's also a large feral cat population I grew quite fond of and often people digging through the dumpsters. I stopped taking the trash out after dark because of creepy characters lurking in the parking lot.
>
> The stress from living here took years off of my life. They prey on the poor, had I been financially able to move when my lease had run up before I would have ran. I didn't let myself believe how bad it really was until I was safely away and it was no longer my reality.
>
> Like

[25] Property deed via Tulsa County Clerk.

Niang Dim
1 review
★☆☆☆☆ a month ago

I would give 1 star if I could, maintenance never came when I went to the office to report things, all their things are breaking. I had to live with no hot water at all for a whole month in the winter because they wouldn't come after I reported 4 times to managers and 3 times at the emergency hotline

Like

Response from the owner a month ago
Hello. We are sincerely sorry to hear this was your experience. Our team works hard to address maintenance issues as quickly and as thoroughly as we can with the resources available to us. It's disappointing you feel we missed the mark with ... More

Niang Dim
1 review
★☆☆☆☆ a month ago

I would give 1 star if I could, maintenance never came when I went to the office to report things, all their things are breaking. I had to live with no hot water at all for a whole month in the winter because they wouldn't come after I reported 4 times to managers and 3 times at the emergency hotline

Like

Response from the owner a month ago
Hello. We are sincerely sorry to hear this was your experience. Our team works hard to address maintenance issues as quickly and as thoroughly as we can with the resources available to us. It's disappointing you feel we missed the mark with ... More

Case Study 6: The Harrison Grant Apartments (Balcones Heights, TX)

In December 2021, TBBK funded a $17.2 million loan against a $22.9 million purchase of the Harrison Grant Apartments just outside of San Antonio, at a 75% LTV. UCC filings list the purchasers as "Joul 321 LLC" and "ADSR Investments, LLC" which Texas business records show are registered to Rachel Rainosek and James Rainosek.

N5 THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S NAME: Provide only one Debtor name (1a or 1b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); if any part of the Individual Debtor's name will not fit in line 1b, leave all of item 1 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

1a. ORGANIZATION'S NAME JOUL 321, LLC					
OR 1b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)			SUFFIX
1c. MAILING ADDRESS 12422 Maurer Ranch	CITY San Antonio	STATE TX	POSTAL CODE 78253		COUNTRY USA

2. DEBTOR'S NAME: Provide only one Debtor name (2a or 2b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); if any part of the Individual Debtor's name will not fit in line 2b, leave all of item 2 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

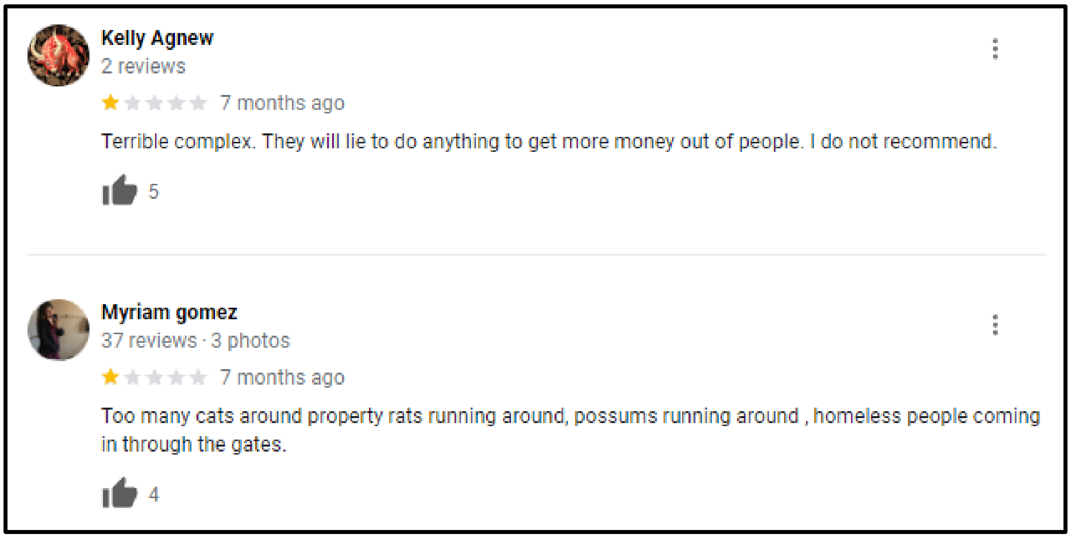
2a. ORGANIZATION'S NAME					
OR 2b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)			SUFFIX
2c. MAILING ADDRESS	CITY	STATE	POSTAL CODE		COUNTRY

3. SECURED PARTY'S NAME (or NAME of ASSIGNEE of ASSIGNOR SECURED PARTY): Provide only one Secured Party name (3a or 3b)

3a. ORGANIZATION'S NAME THE BANCORP BANK					
OR 3b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)			SUFFIX
3c. MAILING ADDRESS 3 Columbus Circle, Suite 2200	CITY New York	STATE NY	POSTAL CODE 10019		COUNTRY USA

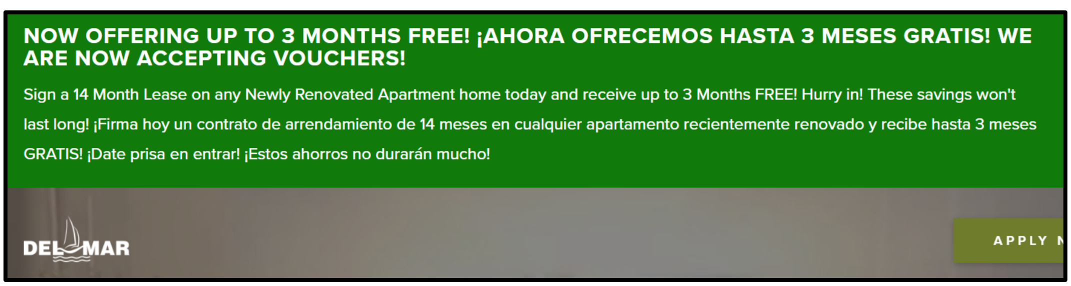
Source: Texas UCC filings

Rachel's LinkedIn suggests that she is an Application Services Manager at the Capital Group while James was an engineer by trade prior to running a landscaping business. Third party data suggests that 47 of 327 units are vacant, for an 86% occupancy rate, again below GSE requirements, while rents have remained relatively stagnant having moved from $661 to just $705. Property reviews are sparse, but call The Harrison Grant "*a terrible complex*."



Bonus Round 1: Del Mar Apartments (Houston, TX)

In June 2022, TBBK funded a $46.8 million loan to help fund the $62.2 million purchase of Houston-based Del Mar Apartments by Three Pillars Capital. **While this loan isn't in the 2H 2021 cohort, we find it worthwhile to discuss given that the borrowers themselves state in court documents that the property cannot generate positive NOI.** A market leading real estate data provider estimates that 128 of 544 units are vacant, for just 76% occupancy. The property's website says new residents can receive up to 3 months of free rent on a 14-month lease, suggesting that significant concessions are being made to fill the property.



In September 2023, Three Pillars filed a lawsuit (Case 1:23-cv-08999-JLR) against TBBK alleging that TBBK forced Three Pillars to purchase excessive insurance coverage on the properties, which "would eliminate any profit margin on the property" and leave Three Pillars unable to pay down the loan. Tellingly, Three Pillars themselves also argue that the replacement cost of the property would be "much cheaper to rebuild" today, given the property's age. Note that 5 of the 6 properties we profiled prior to Del Mar are even older than Del Mar.

> 18. This added expense would have frustrated the purpose of the Loan Agreement—insurance at this level of expense would eliminate any profit margin on the Del Mar property, and thus no money would be available to pay down the loan itself. These quotes fell well beyond increases contemplated by Plaintiffs and insurance experts. At the quoted rate, Plaintiffs' operating costs and debt servicing expenses exceed their revenue from the Del Mar Apartments.

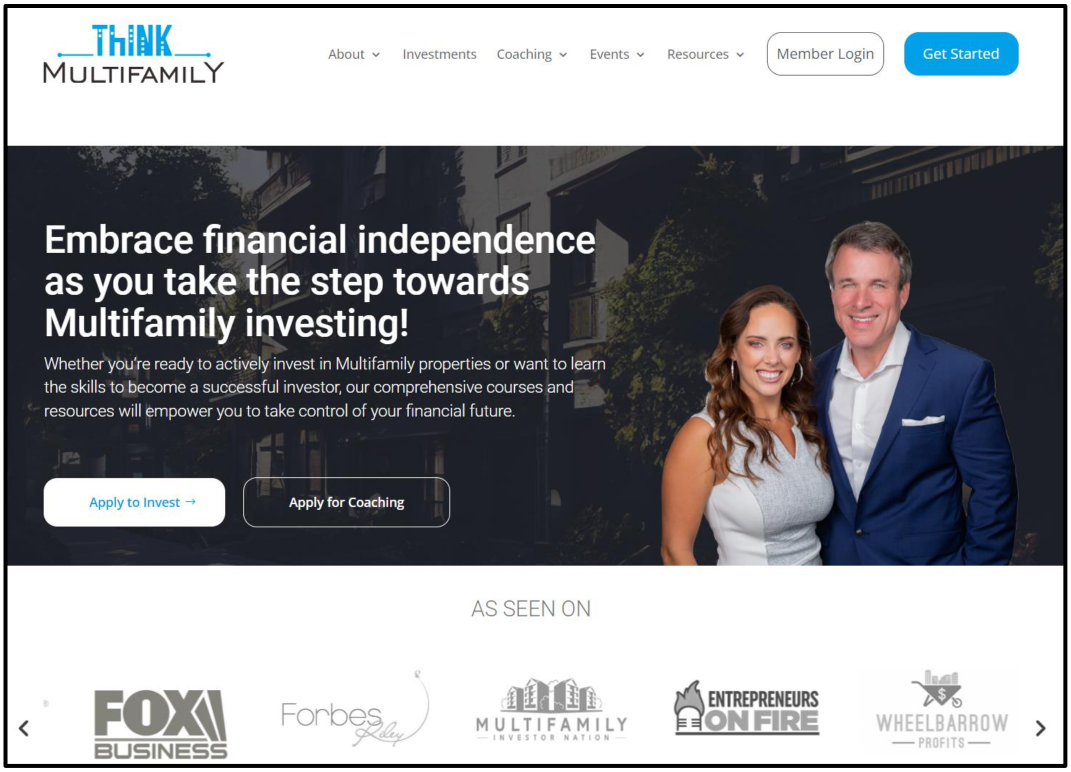
> 22. For 2023, the total insurable value of the Del Mar property is $63,040,898. The insurable value of the Del Mar Apartments is considerably higher than principal of the loan between the Del Mar entities and Bancorp due to the age of the property. Total replacement cost insurance values the insurable interest of a property at the level of what it would cost to rebuild the property *exactly the same way it was built*, including using outdated and costly building methods and materials. As the Del Mar Apartments is a large property built in 1978, it would be much cheaper to rebuild the property using modern building methods and materials should such construction be necessary.

Source: First Amended Complaint filed November 29, 2023, pages 5 and 6

Bonus Round 2: Harmony Plaza Apartments (Atlanta, GA)

In November 2022, TBBK funded $15.5 million of the $19.5 million purchase (80% LTV) of The Harmony Plaza Apartments.[26] While this loan is further from maturity than the 2H 2021 vintages we profile, we find it particularly worthwhile to show that these issues are not merely contained to the 2H 2021 loans, but appear rampant throughout much of TBBK's book. The $4 million equity piece of the purchase looks to have been cobbled together by THINK Multifamily, alongside a crowdfunding campaign organized by OwnProp. THINK Multifamily's website looks more to us like an informercial than a serious investment operation.

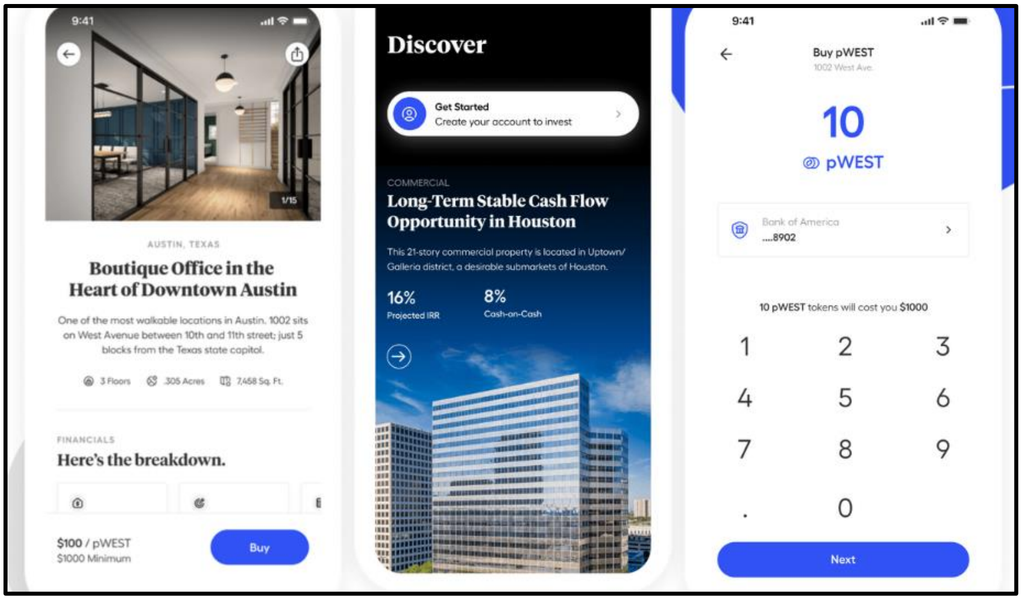
[26] Note that Fulton County, GA property records disclose addresses at both 1870 Myrtle Drive, and 1871/1877 Plaza Ln SW, which are neighboring lots but both named "Harmony Plaza". Purchaser: "TMF HARMONY PLAZA SPE LLC"



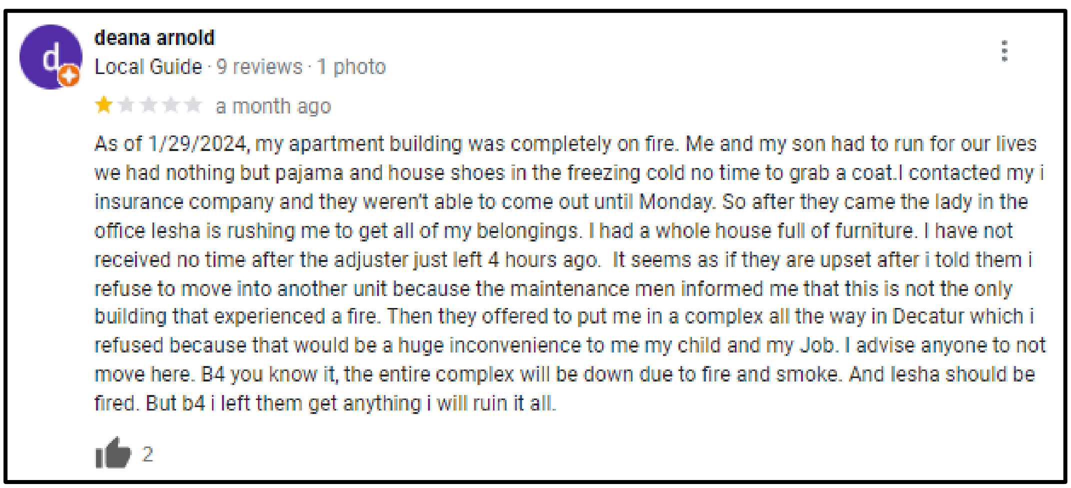
Coincidentally, THINK's Mark and Tamiel Kenney ran a weekly podcast, but haven't posted a new episode since August 2023. In July 2023, Mark was a guest on the "Elevate Podcast." **In it, he stated that he is already seeing "a lot of deals" that aren't able to cover their loans – and this was 8 months ago:**

> *"An example, if you have a lender that's also an operator so they could actually take your property over if they had to, and run it, I don't like those guys as lenders. I'd rather have a lender that's like, hey we'll work with you – we have no intentions – we're not even capable of taking your property over." (at 16:45 onward)*
>
> *"The deals that work right now are loan assumptions ... We're already seeing a lot of deals unfortunately today, that if they sold, **they wouldn't be able to cover their loan**."*

Meanwhile, OwnProp calls itself a "property tech" company allowing investors to "purchase tokens" in multifamily investments with as little as $100. OwnProp's homepage reiterates the same tired tropes of many other syndicators, including that investors can "*generate wealth by investing in fractional real estate*."

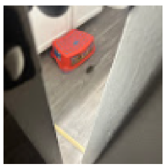


With respect to Harmony Plaza in particular, OwnProp promised investors could see returns of over 200%: *"As an investment, the property carries an equity multiple of 2.06x, meaning every $1 invested could potentially generate $2.06..."* Despite closing in November 2022, recent reviews complain that the buildings have caught fire and infested by roaches and rats. See that management even replies to acknowledge that the complaints "*are valid*."



Tissa
4 reviews · 5 photos
5 months ago

My experience in these apartments has been horrible and frustrating since I paid my deposit. My move in date was pushed back 3 times which I should've just ran then, found to rats in my apartment within the two weeks of living here. Had to catch them myself because they chose not to come by and help took two more weeks for them to fill all the holes they were coming from. They have a bad roach problem. Now I've got a leak coming into my kitchen from upstairs for over two weeks now still no one has came to fix the matter or check out the problem, but putting the work order in as complete so they are seeing them.This has been the worst living experience I've ever had . You go by the office the door is locked and when you call no one answers.



8

Response from the owner 3 months ago
We sincerely apologize for the issues you've faced in our apartments. Your concerns about the delays, pests, and the leak are valid, and we are actively addressing them. We've escalated the maintenance issues, enhanced pest control ... More

Howard Nguyen
1 review
7 months ago

it's astonishing how badly can a place be infected with cockroaches. they've been here since day one and so far it's been an uphill battle to no avail. at this point i might as well make them split the rent

2

Response from the owner 7 months ago
We apologize for the inconvenience you have experienced regarding the cockroach issue at our apartments. We understand how frustrating this must be for you, and we want to assure you that we are taking this matter very seriously. Our team is actively working to address the problem and implement more effective solutions. Your comfort and satisfaction are important to us, and we appreciate your patience as we work to resolve this situation. If you have any further concerns, please don't hesitate to reach out to us. We are committed to providing a clean and pest-free living environment for all our residents. Thank you for bringing this to our attention.

We toured the property in March 2024 and spoke with a leasing agent, who confirmed that the complex currently held high vacancies as one of the buildings was still being renovated as the result of a building fire, as alleged by the first comment above. Sections of the property remained fenced and boarded up.

Source: Culper Research apartment visits, March 2024

Borrowers Don't Have Any Good Options, In Our View

We believe many of TBBK's borrowers are left in a precarious position. When loans come due, we see four main options: agency refinancing, non-agency refinancing, "extending and pretending", and foreclosing. Borrowers ideally hope to obtain agency refinancing. However, GSEs have strict requirements, including 90% occupancy for at least 90 days and 1.25x DSCR coverage. We believe many properties will simply fail to meet these requirements due to high vacancies, poor DSCR coverage given stalled-out rents and increasing costs, or both.

If borrowers opt to refinance, non-agency multifamily bridge rates now range from 9% to over 15%.[27] TBBK's own realized interest rate was 9.30% in Q4 2023.[28] We believe this scenario effectively wipes borrowers' equity while cutting into TBBK's own loans. Illustratively, consider that as of Q4 2023, TBBK disclosed $2,000 million in principal across 148 REBLs at a 72% weighted-average LTV, implying an average loan size of $13.5 million against total initial purchase price of $18.8 million per property. Thus:

- Assuming that these properties were underwritten at cap rates of 6% to 8%, the average property was underwritten to generate NOI of $1.13 million to $1.50 million per year.[29]
- Meanwhile, a new lender typically requires a minimum DSCR of 1.25x, implying that the maximum interest expense allowable will be capped at $1.17 to $1.64 million.
- Given that this new debt is now coming at substantially higher rates, **lenders will only offer from $6.01 million to $13.35 million in new capital.**
- **However, recall that borrowers have already invested $5.3 million of GP/LP equity into the deal, in addition to TBBK's $13.5 million loan. The new capital thus is insufficient to not only provide any returns for GPs/LPs, but would also cut into TBBK's debt, implying losses of 35% at the midpoint. See our full analysis and sensitivity table below.**

[27] Per our February and March 2024 conversations with syndicators, as well as public quotes which can be found for example here, here, and here.
[28] See 2023 Form 10-K.
[29] Note this analysis, Company-favorably, assumes properties generate positive NOI in the first place. Per our conversations with TBBK's own borrowers and syndicators, as well as publicly available data on comparable Class C multifamily properties, deals from 2021 to 2022 were generally underwritten to 4-6% cap rates, or lower. However, TBBK claims that it was not underwriting deals at 6% cap rates, but 8% (see Q4 2023 conference call). We believe our 6-8% range is generally representative in light of these considerations.

As of Q4 2023	$ millions	
Balance of loans	2,000	*per 2023 Form 10-K*
Number of loans	148	*per 2023 Form 10-K*
Average loan balance	$13.5	
Weighted avg. LTV	72%	*per 2023 Form 10-K*
Implied price at underwriting	$18.8	
Cap rate at initial purchase	7.0%	*lower cap rates portend further downside*
Implied NOI per property	$1.31	
DSCR coverage required	1.25x	*standard lending requirement*
Max new interest expense	$1.05	
Interest rates on new debt	12.0%	*per links, conversations with syndicators*
"New debt" max on refi	$8.8	
Existing debt	$13.5	*as implied per TBBK's disclosures above*
Discount vs existing TBBK Loan	**-35%**	

Max Refi		**Rate on Refinancing**								
		9.0%	**12.0%**	**15.0%**	**vs. $13.5M loan ($ discount)**			**vs. $13.5M loan (% discount)**		
Initial	**6.0%**	$10.0	$7.5	$6.0	-$3.5	-$6.0	-$7.5	**-26%**	**-44%**	**-56%**
Cap	**7.0%**	$11.7	$8.8	$7.0	-$1.8	-$4.8	-$6.5	**-14%**	**-35%**	**-48%**
Rate	**8.0%**	$13.3	$10.0	$8.0	-$0.2	-$3.5	-$5.5	**-1%**	**-26%**	**-41%**

Alternatively, borrowers could extend their loans, which often requires paying extension fees, pledging more equity, and/or re-upping rate caps. We suspect that as many of TBBK's borrowers are retail-oriented syndicates working on a deal-by-deal or fund-by-fund basis, they lack the spare capital or ability to raise more capital. Moreover, even if they extend, these borrowers still remain with the problem of higher interest rates as 3-year caps have expired, and the cost to renew is now astronomical.[30] Consider that – again illustratively – as 3-year caps expire, interest expense on the average $13.5 million loan is set to jump from $0.54 million at a 4% rate to now $1.35 million at a 10% rate. **Yet at 7% underwritten cap rates, these same properties are only generating $1.31 million in NOI – the increased interest expense wipes out the property's entire NOI.[31]** Finally, given the structural state of many of these properties (extremely old buildings in Class C markets, subject to crime, infestations, fires, condemnations, etc.), it's unclear to us that a 1- or even 2-year extension would provide borrowers with sufficient timelines to stabilize these properties.

Third, TBBK could foreclose and flip the property to a new buyer, simply hoping and praying to get back their principal. However, given that property values – especially in TBBK's Class C Sunbelt markets – have fallen precipitously since these deals were underwritten, we don't think TBBK would obtain much for the properties, especially as a forced seller, and even ignoring transaction costs. We've already mentioned several cases of these deals below par on page 4. We also spoke with one investor who is currently being marketed a deal on a foreclosed property wherein the (unnamed) lender intends to sell them the property "at par", but then also pay the buyer a series of interest payments over 3+ years, rather than the lender actually earning interest themselves. Per our conversation with the investor:

[30] Consider that in November 2023, Ashcroft Capital – a Sun Belt multifamily syndicator – paused distributions on its first value-add fund, citing that the cost of rate caps has moved from $513,000 to $18.6 million – a 36x increase.

[31] $18.8 million price at 7% cap rate is $1.31 million in NOI.

> *"There's no reason to pay anywhere near where these were 2 years ago ... they've [the lender] got to come up with a way for me to pay a price that I wouldn't otherwise pay, so they're going to give us a spread..."*

Later he said of these deals that "*the par may not even be cheap enough in many of these cases."* We thus see problems for TBBK regardless of which option borrowers choose. If we assume that roughly half of TBBK's loan book – in line with our view of the 2H 2021 loans – come to maturity with problems, this would represent $1.0 billion in "problem" loans.[32] **At our midpoint estimate of 35% discounts to these loans per the above, TBBK would take $350 million in losses/write-downs, or 43% of the Company's total book value.**

TBBK's History of Regulatory Run-Ins

In light of our views on TBBK's current position, we also find it worthwhile to discuss a pattern of red flags at TBBK over the past decade.

- TBBK has already once restated its financial statements due "*to the timing of the recognition of loan losses...*"[33] for years 2012 to 2014, "*and prior periods.*" The Company was later subpoenaed by the SEC and audited by the IRS in relation to these same issues.[34] In December 2017, the PCAOB imposed sanctions on TBBK's auditor, David Burns, "*on the basis of its findings that Burns violated PCAOB rules and auditing standards in connection with the integrated audit of The Bancorp, Inc.'s December 31, 2013 financial statements...*"

- In September 2019, the SEC fined TBBK $1.4 million, while the Company's former Chief Risk Officer and Chief Credit Officer were also charged and fined for "*reporting, record-keeping, and internal controls failures in connection with its commercial loan portfolio*." More particularly, the SEC called out TBBK's failure to properly account for loan losses, which were understated by $138.6 million. We find the settlement particularly informative.

[32] Arguably, 2022 ought to be worse for the Company, given that real estate operators widely acknowledge the peak of "multifamily madness" occurred between April and August 2022, coinciding with the peak in TBBK's own originations.
[33] See page 33 of Form 10-K for year-ended 2015.
[34] See page 37 of Form 10-K for year-ended 2016.

> ADMINISTRATIVE PROCEEDING
> File Nos. 3-19477, 3-19478, and 3-19479
>
> September 20, 2019 -The Securities and Exchange Commission today announced settled charges against bank holding company The Bancorp, Inc. and two of its officers stemming from the company's reporting, recordkeeping, and internal controls failures in connection with its commercial loan portfolio.
>
> According to the SEC's order against Bancorp, between April 2012 and September 2014, Bancorp failed to properly classify certain loans and take appropriate charges for individually impaired loans, resulting in the company materially understating its Allowance for Loan and Lease Losses and its Provision for Loan and Lease Losses in its periodic reports filed with the Commission. During this same time period, Bancorp also failed to devise or maintain internal accounting controls for credit file maintenance and for identifying Troubled Debt Restructurings. As a result of these failures, Bancorp's Provision for Loan and Lease Losses for its fiscal years 2010 through 2013 was understated by an aggregate amount of approximately $138.6 million, and its Allowance for Loan and Lease Losses for each of 2012 and 2013 was understated by over 70%. The SEC's order found that Bancorp violated Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rules 13a-1 and 13a-13 thereunder. Without admitting or denying the findings, Bancorp consented to a cease-and-desist order and agreed to pay a $1.4 million penalty.

- In December 2019, TBBK was ordered by the FDIC to pay $7.5 million via a consent agreement in relation to alleged BSA and AML violations.

- In October 2021, just months after TBBK's renewed foray into multifamily bridge lending, Chairman Daniel G. Cohen stepped down from the Company. He was just 55, and had served as Chairman since 2000. His replacement, James McEntee III, has been a long-time Cohen lieutenant, previously serving as COO at Cohen & Company and as CFO and COO at Cohen-affiliated SPACs, as we discuss further below.

- In August 2022, TBBK settled earlier-filed SEC cease-and-desist proceedings for $1.75 million. The SEC's allegations once again related to TBBK's valuation of floating-rate, short-term, transitional CRE loans from 2017 to 2019.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] the following:

SUMMARY

1. This matter concerns violations of reporting, record-keeping, and internal accounting controls provisions of the Exchange Act by Bancorp. Beginning in the first quarter of 2017 and continuing through the first quarter of 2019 ("Relevant Period"), Bancorp made filings with the Commission in which it reported gains that it received from the sales of loans included in five commercial real estate securitizations ("CRE Transactions"). The CRE Transactions involved the securitization by Bancorp of floating-rate, short-term, transitional commercial real estate ("CRE") loans. In connection with each of the CRE Transactions, Bancorp obtained a tranche of certificates classified as debt securities ("CRE certificates") that included two components: principal-and-interest and interest-only ("IO") components. Bancorp's reported gain was based on the value that Bancorp assigned to the certificates that it received and, in particular, the IO component of the certificates.

2. During the Relevant Period, generally accepted accounting principles ("GAAP") governed the valuation of the CRE certificates and required that they be measured at fair value. Because the initial valuation of each CRE certificate and, specifically, the IO components required the use of what GAAP characterized as "unobservable inputs," the certificates were categorized as assets measured using level 3 inputs that are significant to the overall measurement ("Level 3" assets). One significant unobservable input was the prepayment rate assumption for the loans that provided the collateral for the CRE Transactions. Bancorp failed to maintain adequate books and records and did not sufficiently incorporate all reasonably available market data in support of these valuations. Bancorp also lacked policies and procedures applicable to its initial valuations of the CRE certificates that were reasonably designed to ensure that those valuations conformed with certain GAAP requirements. Bancorp further omitted and misstated material information related to the certificates and the assumptions that it had used in valuing those certificates in certain of its quarterly and annual financial statements filed with the Commission from the first quarter of 2017 through the first quarter of 2019.[2]

In September 2022, after originating $1.49 billion in REBL loans in the past 5 quarters including Q3 2022, the Company changed bank regulators from the FDIC to the OCC.[35]

In its Q1 2023 Form 10-Q, TBBK disclosed that in March 2023 it had received a Civil Investigative Demand from the CFPB "*in connection with certain accounts offered through one of the Bank's program partners.*" The investigation remains ongoing as of the Company's Form 10-K filed for year-end 2023 (page 127).

In March 2024, TBBK disclosed that it would be dismissing Grant Thornton LLP as its auditor, in favor of Crowe LLP. Grant Thornton served as the Company's auditor for 20+ years, since 2000. Notably, since 2020, Grant Thornton has designated several critical audit matters spanning: Allowance for Credit Losses - Direct Financing Leases and Small Business Loans Qualitative Factors, Valuation of Commercial Real Estate Loans, at fair value, and Valuation of Level 3 Investments in Commercial Mortgage-Backed Securities Available for Sale, at fair value.[36]

[35] See page 10 of Form 10-K for year-ended 2023.

[36] See page 84-85 of Form 10-K for year-ended 2020 to 2023.