

## Sugarman's fintech moves past failed deal with Colin Kaepernick SPAC

After the collapse of its deal with the quarterback-turned-civil-rights-activist Colin Kaepernick, The Change Company, led by Steven Sugarman, says it's in talks with other investors to fulfill its vision of serving minority and low-income borrowers.

The neobank is going ahead with plans to expand its mortgage and small-business lending and new digital loan marketplace, according to Sugarman.

Last year, the Irvine, California, company was on track to be acquired by a special-purpose acquisition company sponsored by Kaepernick's Mission Advancement Corp. According to The Wall Street Journal, the deal fell apart when Kaepernick refused to talk about it in media interviews.

The Change Company focuses on homeownership and financial inclusion for minority and low-income communities, Sugarman said in a recent interview.

"One of the things that troubles us and I think a lot of people is that the gap between Black and white homeownership over the last hundred years has actually widened," Sugarman said. "Most people know it's not where they would like it to be, but the fact that it's widening is tough to explain."

The company is a competitor of, and partner with, traditional banks and fintechs. Its bank partners invest in its community development financial institution unit and buy its loans to Black, Hispanic and low-income borrowers. In return, these banks receive Community Reinvestment Act credit.



"Colin [Kaepernick] is someone who has spoken strongly and authentically on some issues that matter to our target markets," says Steven Sugarman, CEO of The Change Company (above left). "Anyone who represents and has trust and credibility within our target markets is someone that we hope we can partner with one way or another."

## The Kaepernick deal

Last year, Mission Advancement raised \$345 million to acquire a socially conscious company. In the fall, it chose The Change Company. The deal collapsed when Kaepernick's team decided he would not talk about it on "Good Morning America." Mission Advancement did not respond to a request for comment.

Sugarman said he'd be interested in working with Kaepernick in some other way.

"Colin is someone who has spoken strongly and authentically on some issues that matter to our target markets," Sugarman said. "Anyone who represents and has trust and credibility within our target markets is someone that we hope we can partner with one way or another."

The Change Company is talking with several other investors, who like the fact that it's profitable, Sugarman said. A presentation for the SPAC deal estimated The Change Company's 2021 income at \$300 million and its earnings before interest, taxes, depreciation and amortization at \$100 million.

## Homeownership and beyond

The company, which Sugarman founded in 2017 with the name Capital Corps, offers mortgages, digital banking, small-business loans, appraisals and insurance to low-income people and minorities.

"We believe that in America, the racial gap in homeownership is a huge contributor to the racial wealth gap," Sugarman said. "So we start with the home loan, but just like many traditional banks, once we make a loan, we offer the borrower a digital banking experience with a Visa card." Evolve Bank & Trust, which is based in Memphis, Tennessee, and has \$628.7 million of assets, holds the checking and savings accounts for The Change Company's ChangeFI mobile banking app.

Mortgages are made to creditworthy, prime borrowers who are unable to get home loans within the traditional banking system for a range of reasons, Sugarman said.

Some can't provide all the documentation regulations require banks to collect. Others have no banks in their neighborhood. Volatile income is a third factor. In the Los Angeles market, there are many contract employees, food service workers and small-business owners who have uneven or cash income. Such workers are disproportionately minorities, he said.

To lend to people with unpredictable or hard-to-document income, the company looks for compensating factors. Its loans have a loan-to-value ratio below 80%. Its borrowers have FICO scores above 640 and cash reserves to bridge gaps between paychecks — typically more than a year's worth.

## Homeownership and beyond (cont'd)

The company's Change Home Mortgage subsidiary is a CDFI that's exempt from some mortgage documentation requirements. In 2021, it made approximately 8,000 loans; in 2020 it made approximately 7,000. Since its launch as a CDFI in 2018 it has made more than 20,000 loans.

The Change Company partners with traditional banks, ESG funds and other socially responsible investors to help finance these loans and to grow.

Partners include Netflix, Blend, Plaid and 20 banks. More than half of the banks are owned by Heartland Financial USA in Dubuque, Iowa.

"The Change Company has been a great partner for [Heartland] and our banks," said Bruce Lee, president and CEO of the \$19 billion-asset Heartland. "Our goal as a financial institution is to partner with and support the communities we serve, including those who traditionally haven't had access to credit."

The partnership with The Change Company has given Heartland a way to amplify its investment in those communities, Lee said.

"Their values align with ours, and we believe in their focused mission of extending credit and lending opportunities to underserved communities," he said. "We've seen first-hand The Change Company deliver on that mission."

The company has been Sugarman's main focus since he resigned in 2017 as chairman and CEO of Banc of California shortly after the company disclosed that the Securities and Exchange Commission had launched an investigation into questionable statements the company had made. At issue was the accuracy of a news release a few months before about the company's internal inquiry into related-party transactions that had drawn fire from an activist investor and others. Banc of California said at the time of Sugarman's resignation that the release in question had "contained inaccurate statements."

Sugarman says some of his motivation for helping minorities and low-income communities stems from an enlightening experience at Banc of California.

In 2014, the bank announced its intent to buy 20 Banco Popular branches. Two local groups, The Greenlining Institute and California Reinvestment Coalition, objected to the plan, saying the bank didn't have a publicly available CRA plan. Banc of California obtained the groups' approval by committing to increased lending, investment and donations to low-income communities. Both organizations declined to comment on The Change Company.

"We had the experience of buying the Banco Popular franchise and seeing that an acquisition like that was the most economically attractive acquisition that we did, but it was the least sought-after by other banks, [and] it sort of opens your eyes a little bit," Sugarman said. "And you start seeing that providing equitable financial services is not only the right thing to do but the right thing to do for shareholders."

The Change Company has its own appraisal management company, run by a Black female executive who focuses on urban and low-income communities. It also has an insurance company.

"We want to make sure that there are not unfair or predatory practices anywhere in the financial process," Sugarman said.

## The year ahead

By the end of 2022, Sugarman hopes The Change Company will become one of the largest originators of loans to nontraditional borrowers.

Another goal is to bring more investors and banks to its new digital loan marketplace, XChange.

By selling loans directly through the portal, "we can recycle the money quicker and know that there's a pool of socially responsible capital that will always be there and won't fluctuate with the volatility of Wall Street," Sugarman noted.

Using the portal, investors can search for loans in counties with 20% poverty rates for the last 30 years. Icons identify such counties, as well as Black and Hispanic borrowers.

"If someone has a socially responsible goal, they can see which loans meet that goal and further it," Sugarman said. They'll be able to analyze the underlying credit files to make sure they meet certain standards.

This can prove the impact investors seek when they aim to improve racial inequality in the wake of the George Floyd murder.

"There are a lot of commitments and pledges for things like Black homeownership and economic initiatives and for Black and low-income communities," Sugarman said. "But oftentimes the well-meaning bank that makes that pledge finds it hard to find actionable investments that meet its risk tolerance and community development goals."